

CHALLENGE

THE MAGAZINE OF ECONOMIC AFFAIRS

Volume 9

1960-1961

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KRAUS REPRINT CORPORATION
NEW YORK

1967

CHALLENGE

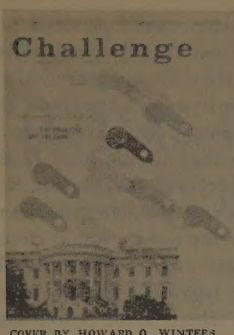
THE MAGAZINE OF ECONOMIC AFFAIRS

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Volume 3
1960-61

Published by the
Institute of Economic Affairs
11, Bedford Square, London, W.C.1
and
100, Madison Avenue, New York, N.Y. 10017

Printed in U.S.A.



COVER BY HOWARD O. WINTERS

Challenge

THE MAGAZINE OF ECONOMIC AFFAIRS

OCTOBER, 1960

VOLUME 9

NUMBER 1

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ARTICLES

- What Politicians Want—and Cannot Do 4
The debate over economic growth. By Stephen W. Rousseas
- Which Party Can Make the U.S. No. 1? 8
The world power race. By T. C. Schelling
- Neither Party Offers a Brave New Approach 12
The farm problem. By Murray R. Benedict
- Education Needs vs. Platform Promises 15
Schools as a political issue. By Fred M. Hechinger
- How Do We Get What We Need? 17
The issue of resource allocation. By Richard A. Musgrave
- Union Support: Asset or Liability? 28
Organized labor at the polls. By Neil W. Chamberlain
- How People Vote—and Why 32
The American electorate. By Roy V. Peel
- How Much Lag Between Insight and Application? 36
Realities in Search of a Theory—No. 1. By Bert F. Hoselitz
- Employment, Growth and Price Levels 40
Abstract of original research. By Robert C. Turner

INTERVIEW

- Seymour E. Harris and Henry C. Wallich 22
Two prominent economists debate the economic issues of our time

DEPARTMENTS

- From the Editor 2
- Letters to the Editor 3
- Challenge Notes 21
- Reading Report 44

CHALLENGE, the Magazine of Economic Affairs; Volume IX, Number 1; copyright 1960 by Institute of Economic Affairs, New York University. Second-class postage paid at Indiantown, Fla. Frequency of publication: monthly October through July (10 issues a year). Publication office: Indiantown, Fla. Executive, editorial and subscription offices: 475 5th Avenue, New York 17, N. Y. Address all correspondence to CHALLENGE, 475 5th Avenue, New York 17, N. Y. Single copy: 30c. Subscription rates: 1 year, \$3.00; 2 years, \$5.00. CHALLENGE is issued and distributed by Institute of Economic Affairs as a nonprofit, education and information service. The views expressed herein are those of the authors and not necessarily those of New York University. Printed in U.S.A.

FROM THE EDITOR

THE NIXON-KENNEDY RACE has at least one refreshing aspect. You have to go back to 1944 to find another Presidential contest in which both nominees really wanted to be President. Richard Nixon and John Kennedy, for reasons that differ in substance but add up to a common ambition, share a driving need to attain the highest political office in the land.

There is a difference between wanting to be *elected* President and desiring to *be* President. The difference is not academic. In the first instance, the victor satisfies his need to fulfill peripheral ambitions only: to prove that he "can make it" (Harry Truman in 1948); to gain the respect of his contemporaries; to get his name into the history books. In the second instance, the victor grasps the opportunity to fulfill a more direct ambition: to leave a distinct mark on the Presidency. Both of our current candidates have this latter kind of ambition. To win is only the means to a much more important end.

What is this office to which these two ambitious and energetic young men aspire? The American Presidency—sometimes referred to as the world's most important job—has aspects which make it appear to be one of the world's more unlikely jobs, as follows:

(1) There are few positions that anyone would suggest are more important; yet our criteria for selecting a branch bank manager are more clearly defined and scientifically ascertained than the ones we use to select a Presidential candidate.

(2) There are few positions that have a greater potential for the exercise of leadership and influence; yet the Presidency has often been held—and apparently held passably—by men who were neither leaders nor even particularly influential during their term of office.

(3) There are few positions that more accurately symbolize an expression of the popular, national will; yet the Presidency is as much subject to pressure from organized interest groups as any other elected official at any level of government.

These aspects of the Presidency suggest that there might be limitations on the ability of men like Nixon and Kennedy—as there were on others who came before them—to be "strong" Presidents. Limitations are imposed by our political processes in the following manner:

(1) Only the most partisan of the electorate can feel that the man we elect to the highest political office in the country is without a doubt the best man for the job. This being the case, there is no certainty that the man elected to serve can serve better than any one of a thousand unknowns, a circumstance that casts doubts on the

validity of the President-elect's personal program for saving the country from "the dangers confronting us."

(2) The fact that the nation has survived and thrived, even while the majority of its Presidents fell short of being "great" or "strong" leaders, is ample evidence of the recourse the American people have to the Legislative and Judicial branches of government. Strength and leadership in a President, then, are qualities that can be activated only under the most unusual circumstances—circumstances that are often beyond the ability of a President to invoke, regardless of how much he may desire to exercise his talents in the public service.

(3) The democratic process—wherein individuals, and most particularly individuals of one mind acting as a special group, have access to their elected officials—makes of the Presidency a sphere subject to pressures and influences from every direction. These forces inevitably affect the direction to be taken by the Presidential sphere and may even knock it out of orbit no matter how much the man in office resists in the name of national goals and needs.

ONE MUST CONCLUDE from this that the cards are stacked against a man who wants the chance to be a strong President. Still, the challenge attracts some to the game; and if the times seem propitious for the emergence of a strong leader on the national scene, then the challenge is well-nigh irresistible. The question is: Do the times require a so-called strong President? If so, will Nixon or Kennedy fill the bill?

The wonder is that after 170 years of government under a system of checks and balances, the American people still expect a "leader" to provide them with "some kind of decisive program" whenever international or domestic crises become protracted. It must be in the nature of the animal to turn to a personification of leadership rather than to a body of men, to institutions or ideals.

In any case, we are living in times of stress, and apparently people want a President who can articulate the nation's needs in inspiring tones, who can lean, as a guiding gesture, in the direction that the nation must go.

In Nixon and Kennedy we seem to have men who are willing to articulate and to lean. As of now, however, they are articulating and leaning more like politicians than leaders. One candidate tells us that we must not rock the boat (in answer to the charge that we are going over the falls), while the other tells us that we must move the ship of state in all directions at once, thus negotiating a bold 360° approach to the future.

Of course, the exigencies of campaigning are not always the best indicators of a candidate's leadership qualities. For the moment Nixon and Kennedy are merely employing the customary means to win an election. The trouble is that before the election we can only assess the means, which, as of this writing, suggest that neither candidate is displaying the capacity to serve the great end he aspires to serve.—H.B.

LETTERS TO THE EDITOR

Challenge invites your comments. Address letters to CHALLENGE, 475 Fifth Avenue, New York 17, N. Y.

DIESEL DEBATE

• The June, 1960, issue of CHALLENGE features an article by Prof. D. Hamberg which includes the following statement:

(It is) "... the tendency of large companies to get into new fields by absorbing smaller ones that have already made substantial progress and possess the men with the know-how ... as did ... General Motors in becoming the chief producer of diesel-electric locomotives."

This is not a factual statement. The heart of the diesel locomotive introduced by General Motors in 1934 was—and still is today—a lightweight, two-cycle diesel engine. This engine was entirely a development of General Motors. Work on it was started in 1928 by a GM Research Laboratories group under the direction of the late Charles F. Kettering. By 1933 this project was sufficiently far advanced so that a diesel engine of this type was installed at the GM exhibit at the Chicago World's Fair, to furnish the power for the exhibit.

It was at this exhibit that this new type diesel engine came to the attention of the president of a railroad company who was impressed by its efficiency and decided to have it installed in a newly designed streamlined train.

The small companies to which Prof. Hamberg has reference were the Winston Engine and Electro-Motive Companies. These companies had not "made substantial progress" nor did they "possess the men with the know-how" to build a diesel locomotive.

The booklet, "General Motors Diesel Locomotives," which contain the text of a statement on the subject was submitted to a Congressional committee ... and was available to Prof. Hamberg.

ANTHONY DE LORENZO
Vice President
General Motors Corp.

Detroit, Mich.

Mr. De Lorenzo reports nothing that I did not already know. I would like to refer to the recent book by Jewkes, Sawers and Stilleman, "The Sources of Invention" (New York: St. Martin's Press, 1958), which gives a summary of

the history of the Diesel-Electric Railway Traction.

No one denies that General Motors made a major contribution to the development of the diesel engine, one that was instrumental in making it commercially feasible for a broad market. But the fact remains that there was a long history of development of this engine from the time of its initial invention in the 1890s. More important, it is difficult to believe that General Motors' work did not not gain substantially from the advantage of having brought under its control some of the most knowledgeable people in the field, when it purchased the two companies referred to by Mr. De Lorenzo. Important as General Motors' contribution was, it seems impossible to argue with the conclusion of Jewkes, et al (page 295) that it was much more a matter of development than of invention.

D. HAMBERG

CHALLENGE TO BUSINESS

• Walter Lippmann recently made this trenchant observation: "The critical weakness of our society is that for the time being our people do not have great purposes which they are united in wanting to achieve."

The two key points in the above are "united" and "great purposes." Wise men have often stressed our need to work with others toward goals that are extrapersonal.

This suggests that corporate societies may need great purposes too. Although the purpose of a business is to "make a profit" great purposes and the profit motive are not necessarily incompatible. This, indeed, can represent the strength of modern capitalism ... and assure its endurance in this fast-changing world.

Why not, then, add "great purposes" to corporate reasons for being. Consider, for example, the underdeveloped nations and their tremendous unfilled need for trained people to impart know-how. There is a hunger for engineers, public health experts, agriculturists, and so forth.

Here, the American corporation could really lend a hand. Needed experts in a company's employ could be sent to

countries where their specific talents are required. University professors on sabbatical leave could be encouraged and financially helped to bring their knowledge to underdeveloped areas. Trainees from these nations could be brought into our companies to learn essential skills. Study of the needs of these countries will spotlight many areas for helpfulness. Contacting the United Nations Technical Assistance Administration and the nonprofit "Volunteers for International Development," Box 179, Cambridge 38, Mass., will provide useful leads.

Such action can demonstrate the vigor and value of our system which is now in competition with communism.

DR. J. M. NAIMARK

Summit, N.J.

PRIVATE ENTERPRISE

• In reply to Charles H. Percy, President of Bell & Howell Co., who was quoted on page 6 of your June issue, I would say that if the private enterprises did not have their pants taxed off for a lot of crackpot projects, they might have the wherewithal to do many of the things the welfare staters yell for.

CHARLES E. GREEN

Greenwich, Conn.

READER APPROVAL

• Congratulations on putting out an economic publication that avoids the "learned journal" style. Your excellent article, "Why the Price Gap?" (July, 1960), hits our most serious problem, the loss in technical efficiency of commerce.

LAMAR COFFIN

Richland, Ga.

GRAVE PROBLEM

• Could we have been so completely misunderstood? In your otherwise excellent *Challenge Notes* in your July issue you misinterpret a sentence in our pamphlet "Remembering Through the Ages—The History of the Cemetery." When we use the word "publicly" in the sentence: "Soundly managed, publicly appreciated and supported cemeteries manifest our devotion to liberty and proclaim the strength of our ideals"—we do not mean government-sponsored cemeteries.

We mean that the public or people in general should be interested in the good care, upkeep and financial soundness of their cemeteries. Cemeteries ... should be self-supporting private enterprises through corporations owned by the lot owners. A socialized cemetery business is as horrible to us as it is to you.

JAMES WORLEY

Executive Vice President
American Cemetery Assoc.

Columbus, Ohio.

Let's bury the subject.—Ed.

What Politicians Want—and Cannot Do

by STEPHEN W. ROUSSEAS

■ THE PROBLEM of economic growth has received much attention throughout the current political campaign. Both parties are in favor of economic growth, of course, but they differ on what the desirable *rate* of economic growth should be and on the *means* for achieving it.

It is, of course, possible that the *actual* output of an economy may be less than its potential—that is, less than what it could have produced had it been operating at capacity or full employment. In this connection, the Democrats point to the relatively high level of unemployment the American economy has been experiencing in the 1950s, even during periods of inflation. Average unemployment during the boom of 1956-57, for example, was approximately 4.3 per cent of the labor force. In the 1958 recession, unemployment reached 6.8 per cent of the labor force, and during the past year it has averaged 5.5 per cent. The Democrats argue that the general level of unemployment in the late 1950s was higher during both boom and recession periods than it was in the late 1940s and early 1950s. This they blame on the policies of the Republican Administration—particularly on its excessive reliance on monetary policy to cope with the problem of inflation.

Using actual growth rates in constant 1958 dollars, the U.S. economy from 1890 to 1959 grew at an annual rate of 3.2 per cent. From 1947-53 (when the Democrats were in power) the average annual growth rate was 4.6 per cent, considerably above the over-all average for the economy; while from 1953 to 1959 (covering the Eisenhower Administration) it was only 2.4 per cent, significantly below the over-all average. But the

Republicans, by estimating a 1960 GNP of \$510 billion, compute an annual growth rate for the 1954-60 period of 3.6 per cent, or above the over-all average. They attribute the 4.6 per cent figure for the Truman era to the Korean war and thus reject it as an appropriate basis on which to judge the peacetime performance of the economy. In turn, the Republicans can be accused of using a recession year as their base, thus making growth gains appear greater than they actually were.

No matter how one views or computes the rate of U.S. economic growth, one fact is inescapable: it is markedly below the Russian rate. Economic growth in the Soviet Union has been estimated at seven to nine per cent per annum. This comparison makes economic growth of critical importance to the West. For in a neo-mercantilist world of power politics armed with nuclear warheads, absolute contests of power can only result in mutual annihilation. Thus, the traditional method of settling differences through war is no longer feasible.

Economics of coexistence

That is what makes the Russian emphasis on peaceful coexistence the brilliant tactic that it is. With Peiping apparently falling in line with this strategy, the long-run prospects of the West may well hinge on our relative rate of economic growth. The danger that the Eastern power bloc may outrun us in the economic race is a greater threat to the security of the Western world than all the ICBM missiles in the arsenals of the Soviet Union.

It will be worth our while, therefore, to consider the Republican and Democratic positions on economic

growth in some detail. The Democratic platform begins by paying its respects to the American free competitive enterprise system as "the most creative and productive form of economic order the world has seen." It then states that "the recent slow pace of American growth is due, not to the failure of our free economy, but to the failure of our national leadership." It commits itself to doubling the rate of growth to an average annual rate of five per cent and pledges to achieve this goal without inflation. As a first step, it promises to "put an end to the present high-interest, tight-money policy" which, in its view, has not only failed to keep prices down, but "has given us two recessions within five years, bankrupted many of our farmers, produced a record of business failures, and added billions of dollars in unnecessary interest charges to government budgets and the cost of living."

To speed up the rate of growth, the Democratic platform proposes to apply monetary and credit policy "properly," to realize larger budget surpluses in boom times, and to attack concentrations of market power with a more rigorous application of the antitrust laws. Finally, it comes out for a reordering of budgetary priorities in favor of increased social welfare expenditures for education, medical care for the aged, aid to small business and to farmers, and to virtually every other politically significant interest group.

The Democrats propose to finance these additional expenditures without increasing present tax rates by undertaking a four point program of "fiscal responsibility" consisting of (1) an end to gross waste in federal expenditures, (2) a greater enforce-

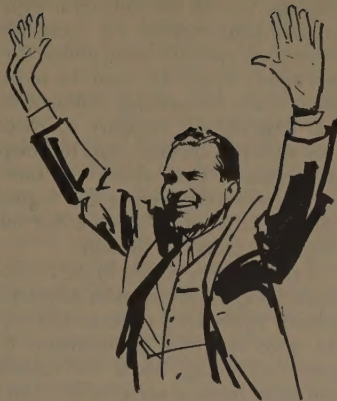
ment of tax laws to catch tax evaders, (3) the closing of the loopholes in our tax laws which favor the privileged classes, and (4) the utilization of the added tax revenues to be realized by the proposed expansion of the economy. This last point is the most important of all. "Each dollar of additional production," we are told, "puts 18 cents in tax revenue in the national treasury . . . A five per cent growth rate will yield over \$40 billion in added revenue in four years at present tax rates."

The Republican platform is much less specific on details, though it is quite generous in stating broad principles. For example, it recognizes the need to "raise employment to even higher levels and utilize even more fully our expanding, over-all capacity to produce." This statement indicates a sensitivity to the Democratic charges of excessive unemployment and less than capacity output. The Republicans also feel that "we must quicken the pace of our economic growth" and, consequently, they "accord high priority to vigorous economic growth and recognize that its mainspring lies in the private sector of the economy."

Problems and policies

These statements were forced into the Republican platform by Gov. Rockefeller of New York and represented a major concession by Vice President Nixon. In his testimony before the Republican Platform Committee, Rockefeller said: "We must encourage a rate of growth between five and six per cent . . . The ways to speed growth in our economy do *not* involve government spending and government controls. Such government intervention has always created economic distortion and inflation, retarding rather than promoting growth." These views are faithfully reflected in the Republican platform, though it rejects Gov. Rockefeller's specific reference to a five or six per cent figure and refuses to mention any figure at all. The relevant portion of the Republican platform on this point is: "We reject the concept of artificial growth forced by massive new federal spending and loose-money policies."

Here we come to the basic difference between the two parties. The Democrats propose more federal



spending to be financed out of the proposed rate of growth and the repeal of the tight-money, high-interest-rate policies of the Eisenhower Administration. The Republicans oppose any increase in federal spending and would stimulate growth in a private enterprise economy by a "broadly based tax reform to foster job-making and growth-making investment for modernization and expansion, including realistic incentive depreciation schedules."

The Republican views on fiscal policy are quite clear. They want a balanced budget almost at all costs and are generally opposed to federal welfare spending, which, they say, is not consistent with the requirements of a private enterprise economy. For the Republicans, economic growth necessarily depends on encouraging more initiative and thrift in individual citizens. But high interest rates on savings could interfere with long-term capital formation. To avoid this, the Republicans advocate certain tax reforms to eliminate double taxation on risk capital and to accelerate depreciation allowances.

Under the Republicans, then, the government would play only a minor role in achieving a higher rate of economic growth. It would merely provide the necessary profit incentives for private business to do the job, with the individual citizen supplying the means. If the economy could operate this way, it would be nice; but the historical record on this score does not lend much support to the Republican position.

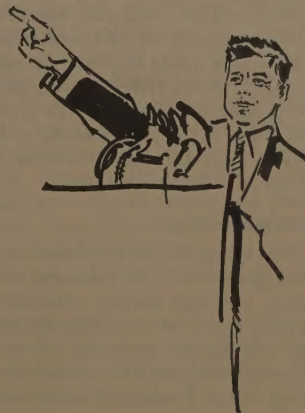
President Eisenhower's address before the Governors' Conference in Williamsburg, Va., in June, 1957, is a

good example of the Republican viewpoint on this matter. One of the President's proposals was that the federal government turn over to the states the responsibility—both financial and administrative—for certain social services now provided by the federal government. The governors were told that this would eliminate the federal overhead, or "freight charges on money being hauled from the states to Washington and back," and that this "would save the American taxpayer a *tidy sum*." It is a bit difficult to be against a net reduction in taxes, but three reservations to the President's proposal can be made.

Federal and state issues

First is the possibility that such action would jeopardize the federal government's ability to maintain economic stability by initiating compensatory action. Individual states are notoriously perverse in scheduling their expenditures in a counter-cyclical way. Further, the problem of synchronizing their activities in an effective manner becomes virtually impossible without some over-all guiding body—namely, the federal government—in control of the purse strings. To the extent that the financing of nondefense expenditures is pushed over to the states, our ability to control the business cycle will probably be reduced.

Second, it is naively romantic to assume that nationwide problems can be solved adequately on a state and local level. Only the federal government has the power to allocate tax receipts to state and local governments on the basis of regional



differences in economic well-being.

Moreover, many state and local governments could not afford to finance these social expenditures. Over the past 20 years, and particularly over the past decade, the American economy has greatly expanded its private sector—to an appreciable extent at the expense of its public sector. And the tight-money policy of the Republican Administration has made it difficult for states to borrow money, since the money-lending institutions have stood to make higher profits from investments in private business. So the states get it both ways. In a downturn, state revenues are the first to fall by virtue of the very nature of state and local taxation, and on the upturn they face strong competition in the capital markets from the private sector.

As it is, the percentage of the federal budget devoted to nondefense social expenditures is relatively small. To attempt to reduce it further by pushing the responsibility for developing our social resources on the states borders on political irresponsibility. And to couple this recommendation with the projection of lowered taxes on a net basis (the President's "freight charges" argument) reduces the proposal to a gimmick.

The Democratic position on fiscal policy calls, as we have seen, for a reordering of budgetary priorities in favor of additional federal welfare expenditures. It also proposes larger budgetary surpluses during boom periods and deficits during recessions. These surpluses would eventually be used in large part to supplement the welfare expenditures necessary to stimulate long-term economic growth. (The Democrats look at expanded educational and health facilities, which would improve the quality and productivity of the labor force, and improvements in public roads and other public assets, as key factors in promoting a sustained increase in our growth rate.)

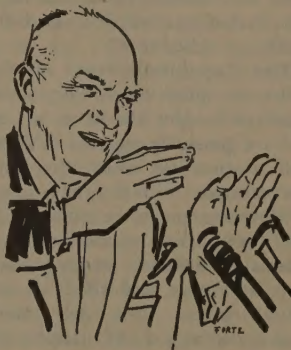
Budgetary surpluses

The boom period surpluses would also, presumably, be sufficient to restrain demand during inflationary periods and thus reduce the necessity for relying on monetary controls. Consequently, interest rates, fluctuating within a narrower band, would

impinge less on the long-term capital formation needed for economic growth. A part of the surpluses, furthermore, would be used to retire some of the outstanding public debt and thus reduce Treasury competition with private enterprise for long-term funds. But, above all, these surpluses would provide the higher rate of national savings needed for long-term economic growth.

A tight-money policy, in the Democratic view, simply impedes economic growth by making it more difficult for state and local governments to meet expanding needs for schools and other forms of social capital. And since interest rates have only a nominal effect on the rate of national saving, a tight-money policy in no way promotes economic growth.

For these reasons the Democrats feel that, in promoting economic growth, monetary policy—i.e., credit controls—should be subordinate to fiscal policy—i.e., reorganization of budget priorities and the creation of budgetary surpluses in boom times.



On monetary policy the Democratic position cannot be separated from its stand on market power. If prices were perfectly flexible in a private enterprise economy, any shift in the internal composition of aggregate demand would result in a price increase in those sectors where demand has increased and a decline in price in those sectors where demand has declined. Resources would be continually reallocated in line with consumer preferences. Though the general price level might remain fairly stable, there would be considerable shifts in the price levels of specific items. Should a general excess of demand occur, monetary policy, by restricting credit and raising interest

rates, could cut off the excess demand and stabilize the economy at a full employment level.

Theoretically, this is the way a free enterprise economy should work. However, if price rigidities exist because of oligopolistic concentrations of market power prices will not fall in those sectors of the economy experiencing a decrease in demand, *providing the recession is a mild one*. In these circumstances the general price level will increase even if the economy is operating at less than capacity and there is a five or six percent level of unemployment.

Rigid prices

What happens, essentially, is that oligopolistic concentrations of market power produce a "ratchet effect" in commodity and factor prices. If, for example, there is an excess demand for steel because of an investment boom in producers' goods, the price of steel products will *rise*. But, at the same time, if the automobile industry is in a depressed condition, its prices cannot *fall* because it still must pay high prices for steel. In the total situation the general price level will rise.

Since inflations due to pressure from the supply side are not necessarily excess demand inflations, monetary policy has little relevance to the situation. If demand is not excessive to begin with, only a very extreme monetary policy could reduce aggregate demand enough to affect individual prices and thus break the "ratchet effect." Under these conditions the net result of high interest rates and credit controls can only be an increase in unemployment, an economy operating at less than capacity and a lower rate of economic growth.

This is the crux of the Democratic criticism of the Republican reliance on monetary policy. An excessive build-up in investment goods (as in the 1956-57 boom) results in a potential supply considerably in excess of actual demand. If the recession is relatively mild (as the postwar recessions have been) prices in the depressed sectors of the economy, as we have seen, do not fall and the general price level slowly creeps up. By trying to restrain the investment boom through general monetary policies, matters are made worse and unem-

ployment increases. In an oligopolistic market situation where aggregate demand is not in excess, the rise in the general price level can only be curbed by monetary policy, and only if that policy is applied to such an extent as to provoke a depression.

The problem is further complicated by the growth of internal financing by nonfinancial corporations and the growth of nonbank financial intermediaries such as insurance companies. These institutions are not subject to monetary controls placed on the banking system. Therefore, to the extent that they finance investment booms, government monetary policy becomes ineffective.

Because of these situations the Democrats maintain that the Republicans are quite mistaken in assuming that the current inflation is the result of an excessive supply of money in the economy. They maintain that the real causes of the inflation are excessive credit expansion by nonbanking institutions and "administered" prices—i.e., prices arbitrarily established by powerful business concerns instead of by the free workings of supply and demand. To cope with the latter problem the Democrats propose a stricter enforcement of existing antitrust laws wherever possible. If this should fail, they propose to require by law hearings on proposed wage or price increases in key industries.

The Democrats also see the necessity for increasing the supply of money at the same rate as the economic growth of the economy. Since 1953, the rate of increase in the real output of our economy has been greater than the rate of increase in the money supply—2.3 per cent compared to 1.9 per cent per annum. But this happened largely because of the increases in the income velocity of money. On the whole, an inadequate money supply has been a drag on our rate of growth.

Controlling the "Fed"

The Democratic platform, by proposing to supersede monetary policy with fiscal policy, implies a subordination of the Federal Reserve System to the Executive Branch of the government. In fact, it is a bit difficult to reconcile the independence of the Federal Reserve and its responsibility for maintaining eco-

nomic equilibrium with the obligations of the federal government under the Employment Act of 1946 "to . . . maintain maximum employment, production and purchasing power." In effect, the independence of the Federal Reserve, coupled with the Republican emphasis on monetary policy, maximizes the Federal Reserve's responsibilities while minimizing the government's responsibility to the people under the Employment Act. Furthermore, general monetary policy has a selective impact, impinging most heavily on small business, and on state and local governments. Thus, structural distortions which cannot be ignored are introduced into the economy.

In their assault on Republican policies the Democrats have raised valid issues. Yet I do not feel that their means are adequate to their ends. The idyllic proposal to accumulate large surpluses during an economic upswing and move into deficit during recessions is easier said than done. Fiscal policy is still a very crude instrument. And Democratic proposals overlook the fact that the use of fiscal policy as a countercyclical weapon has become seriously impaired by the exigencies of the cold war. Since expenditures are now largely a function of foreign policy, there must be changes in revenue if fiscal policy is to be used as a countercyclical tool. And this raises the all-important political question. It is unlikely that either party will have the courage to alter tax rates irrespective of their goals.

The Democratic platform gingerly skirts this issue by proposing, as we have seen, to finance the added federal expenditures they favor through elimination of waste in government (a hardy quadrennial in politics invariably raised by the party out of power), the plugging of tax loopholes, the greater enforcement of existing tax laws and by added revenue to be realized from an increase in the rate of economic growth. We can more or less dismiss the first three as relatively trivial. The last proposal, however, is contingent upon their success in raising the rate of growth, and this is not certain.

Democratic proposals to apply forcefully the antitrust laws is another hardy quadrennial whose fragrance should not be inhaled too

deeply. Nor should we be persuaded that hearings on proposed wage and price increases will turn the trick. The Democrats have put themselves in a box. If concentrations of market power make monetary policy an inadequate instrument for stability and growth, it does the same for fiscal policy. For the efficacy of fiscal policy, as well as monetary policy, depends on the solution of the problem of market power and its consequent sellers' inflations.

Goals and ideals

The Democrats, in short, lack the strength of their convictions. The logic of their position requires certain selective and direct controls, and the coordination of monetary, fiscal and debt-management policies in a National Economic Council with over-all authority over the Federal Reserve System, the Treasury and all other credit-issuing agencies of the federal government. They must also be prepared to exercise control, through a strengthened and reconstituted central bank, over all nonbank financial intermediaries and, through the Treasury, over the disposition of undistributed profits by nonfinancial corporations. They must, in other words, create a central economic agency to oversee and implement their economic policies. I am not convinced the Democratic party can achieve its goals short of such a setup—a setup which clashes with their views of a free enterprise economy.

My own position is that neither party is capable of adequately solving the problem of economic growth. The Republican party's concern with monetary policy and the purchasing power of the dollar is, at bottom, a technique for minimizing the government's "intervention" in the economy, and leaving the major decisions to the private business sector. The Democratic party, on the other hand, has its heart in the right place, but, unfortunately, its mind is not in focus. To solve the problem of economic growth will require far more government intervention and direction of the economy than the Democratic party is either willing or able to provide.

Peaceful coexistence may yet prove to be the undoing of the West. But the alternative, for very obvious reasons, cannot be war. ■

Which Party Can Make the U.S. No. 1?

by T. C. SCHELLING

□ HOW DO the two parties and their candidates compare in their diagnosis of the American power position, and how do they compare in their programs? This is one of the most important questions facing the electorate in the coming elections. Before we can begin to evaluate the respective stands of the two parties on this issue, we should review the changes that have taken place in the world balance of power in recent years.

Power is an elusive thing to measure. And where the power to affect other nations is concerned, as in the concept of a nation's "power position," muscles, motors and bank accounts are inadequate measuring devices. Communist China may enjoy the power that goes with a willingness to see half the population wiped out. The new government of Cuba enjoyed for a while a peculiar power that goes with rambunctiousness—with other nations believing that discipline will be futile until the youngster has matured. Nationalist China enjoys the power that goes with our commitment to them in contingencies they can create. And at various times since World War II, Greece, Turkey, Iran, Jordan, Laos and many others have had the power over us that goes with financial helplessness—with an inability to forestall, on their own, disasters that we could not afford to let happen.

In short, desperation, fanaticism, weakness, indifference and irresponsibility can be a source of power. Just reflecting on the kinds of vehicles and drivers to whom we are most likely to accord a grudging right of way reminds us that the power to influence has its ironies.

But for the United States, power tends to be a more straightforward thing. We are not weak enough, fanatic enough, irresponsible enough,

or near enough to economic collapse, to demand of our allies and our enemies that they save themselves and their interests by rescuing us. Our power tends to be measured in wealth, productive capacity, military force, skill, resolve and the capacity for ordinary leadership.

And how do we fare in 1960 insofar as these measures are concerned? One thing seems certain: whatever the true state of our national power, our *consciousness* of that power, our confidence, gives every indication of being at the lowest point since the attack on Pearl Harbor.

Loss of confidence

The evidence is not so much in the disparagement of our national power by our leaders as in the declining standards by which we measure ourselves. We used to allege that militarily we were the strongest nation in the world; now we allege that we are as strong as we need to be. We used to take it for granted that, being economically the largest and most productive nation in the world, we always would be; now we take comfort in the number of years it may yet take the Soviets to catch up with us. We used to be confident that only our form of society could stimulate and mobilize scientific achievement; but recently we have suffered humiliation as well as doubts. And faced with the possibility of a ruthlessly industrializing China, we are preoccupied with a sense of sheer numerical inferiority.

Nor is this diminishing confidence without basis in fact. We do confront a main potential enemy who has been able to support a defense budget of about the same size as ours. We are confronted with the physical possibility of near-annihilation at the hands of an enemy. We face the

fact that Soviet accomplishments, whatever an exact assessment of them in relation to our own should be, have so exceeded our expectations that we are forced to admit them into the same league with ourselves.

As a matter of fact, we have suffered a bewildering array of shocks and failures in the last several years. Look at the ignominy of having a "soft currency," of worrying about a flight from the dollar. Look at how many major political events of the last year or two, in countries we were actively interested in, have occurred seemingly without reference to American influence. Major political revolutions in Korea, Cuba and Turkey occurred not only without major support and help from us but without our even understanding in retrospect what our influence was, if any, or how we might have changed things if we had known what was going to happen. We have been helpless to do anything about Algeria. And our role in the development of the European Common Market is not at all reminiscent of the days when American initiative, diplomacy and financial incentives brought the European Payments Union into existence.

Evidently world affairs do not revolve around the United States of America quite in the way that they did, or we thought they did, a decade ago. Whether this should cause us grief or relief, whether it was inevitable or instead followed from our faults and mistakes, whether it is temporary or permanent, it is nevertheless a fact that our national sense of being in command has diminished during the past decade. And this external fact has not been without its effect on our sense of national purpose and destiny. As Albert Wohlstetter said recently in *The New York Times* series on "The National Purpose," we seem to be searching for the national purpose much as though we had mislaid it somewhere.

Let us try to get some perspective on our present position by considering how we got here. We might let bygones be bygones if it were not for the problem of our national confidence. Our attitude toward the future, which is what matters now, is bound to be affected by whether we've lost through mismanagement

a position we might have retained or, instead, have relinquished a position that was inherently temporary.

It may help to recall that the grand role America played in the late 1940s, while partly a reflection of our enormous economic vitality, was also partly a reflection of the economic weakness of the rest of the world, a weakness that we believed and hoped was temporary. The dollar was strong because other currencies were weak. American aid was a potent instrument because American aid

our sense of national purpose if it were not for the frightening military developments of the last decade. We could persuade ourselves that we had done our bit for Europe and need not go on leading them forever. We could let the Russians come ahead economically, even concede them some materialist advantages, and be content that our system was so unquestionably superior that we need not even argue about it. We could even redefine the Western Hemisphere to exclude Cuba. But the

based on American strategic forces, was considered more flexible, more efficient, and less subject to abuse by the enemy, than an effort to contain communism by physical engagement on the periphery.

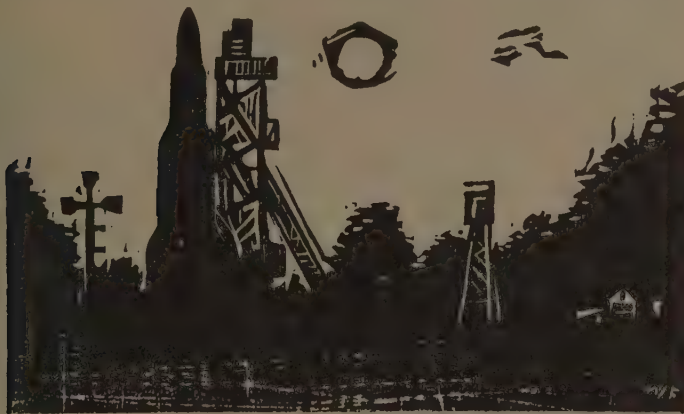
Limited war

The other view was that Soviet nuclear weapons and delivery capabilities, presumed to be growing in impressiveness throughout the early 1950s, tended to make massive retaliation neither an attractive course of action nor an especially credible threat, since we could suffer nuclear bombardment ourselves if we initiated it within the Soviet bloc. According to this view, the Korean war had been a successful demonstration that the U.S. was willing to pay a sizable military price, even if not the ultimate price, to resist Communist expansion; we should exploit rather than renounce the lesson that we had taught the Soviet world; and we should accommodate the notion of limited war to our strategic doctrine and planning.

By 1955 a commonplace view (whether or not true) was that general war—thermonuclear war involving the United States and the Soviet Union—was impossible and unthinkable. The army had discovered a *raison d'être* in limited war and was looking forward to “modernizing” the concept with nuclear weapons, greater mobility, short-range missiles and the trappings of modern technology. Authorities and commentators were developing a theory of limited war.

By the summer of 1957, just before Sputnik, limited war was intellectually dominant. The exciting issue was no longer whether limited war was legitimate, but whether it was compatible with nuclear weapons. To many, and especially to the military services, it looked as though the main trouble with limited war was that we might not win it; but the skillful use of our assumed enormous advantage in tactically usable nuclear weapons seemed the answer to the Soviet superiority in manpower.

What Sputnik did, however, was to undermine the entire premise that general war was absolutely beyond consideration. What Sputnik did was to symbolize the possibility of an attack without warning.



was badly needed. American leadership in Europe was a response to the need for leadership in Europe. And while it is painful to yield a position of dominant leadership, we ought, if we want to restore an appropriate measure of our national self-confidence, to recognize that part of the process was inevitable.

We were evidently quite wrong about what the Communist system could accomplish. This does not by itself mean that our own performance has been so bad over the past 10 years. It is perfectly true that Soviet economic growth poses a threat and raises questions about the adequacy of our own performance. It is equally true that the American economic performance since the end of World War II has been exceptional, but only by standards prevailing at, say, the end of World War II. We have set our sights higher now, partly because we are scared.

But I doubt whether our diminishing sense of world leadership, or diminishing sense of economic superiority, would have created a crisis in

Russians have rockets that can reach this country and warheads that can destroy a city in a single explosion; and we cannot pretend that this does not matter. It does matter. We have suffered an absolute loss of security, and no reorientation of our national interests and pastimes can diminish this fact.

It may be worthwhile to review briefly how our present military uneasiness developed out of the last 10 years. Korea demonstrated that limited war—a consciously restrained war—between the Eastern and Western power blocs was not only a conceptual possibility but a phenomenon to be taken seriously. Out of it emerged two views about military policy. One, reflected in the “massive retaliation” doctrine, was that the United States should determine not to be drawn again into a similarly restrained war, in which it would trade military casualties on an appreciable scale with the enemy, eschew its “quality” weapons, and leave the site of hostilities to the enemy’s choice. A punitive threat,

An attack without warning, launched not against cities and productive assets, but against the retaliatory forces that were relied on to deter attack, might conceivably destroy those forces sufficiently to permit the attacker to "win" in something like the traditional sense. This was the possibility that Sputnik dramatized. An attacker might, with the new technology, move so rapidly and thoroughly that the possibility of retaliation would be precluded.

Whether or not the missile era does indeed reinstate deliberate general war as a strategy, the advent of missiles has forced a re-examination of the balance of terror. And the tenor of authoritative comment contrasts sharply with that of three years ago when we thought we could forget about general war and get down to the business of understanding limited war.

Our preoccupation with airborne alert, and with the silent invisible submarine as a strategic weapon carrier, is an official reflection of the worrying possibility that our retaliatory forces are vulnerable. So, too, is the recent decision to get our big missiles underground with protective concrete. This new worry is also reflected in our interest in smaller missiles that may be more widely dispersed, kept mobile or more effectively protected against blast.

New dimension

Exactly what is the difference that these rockets make? It is not that the rockets may kill us; airplanes could have done that, and Air Force spokesmen have been modest about their ability to intercept incoming enemy bombers. What is different about the rockets is that they may be more effective, not in killing people, but in killing *weapons*. We have had 10 years to get used to the idea that the Russians had, or were acquiring, the physical capability to do us horrendous damage in the event they were so unwise as to wish to. If we could not protect, at least we could deter. What is new is a fear that the weapons of deterrence may themselves be vulnerable.

The new era is one in which accuracy and surprise can be combined to bring strategic *military* targets back into prominence. And some of the terror—for the side that

enjoys the initiative—may be lost.

There are two other phenomena closely tied to this surprise attack problem. One is the increasing recognition that a major war might occur without its being deliberately planned by either side. A hasty decision, a quick response to ambiguous evidence, a misunderstanding of the other side's warlike intentions, is a dangerous possibility mainly because of the enormous advantage in striking first or, in case of attack, in launching a counterstrike speedily. If both sides, in fact, had retaliatory forces that were more than adequate and not seriously vulnerable, there would be little advantage to either in jumping the gun or in hastily responding to ambiguous warning.

The second phenomenon bound up with strategic vulnerability is the increasing interest in arms control among persons professionally concerned with national security. Two years ago the Americans and the Russians, together with eight other nations, spent several weeks in Geneva discussing "possible measures which might be helpful in preventing surprise attack." Officially the conference accomplished nothing; but it did force an examination of just what there was about surprise attack that set it off from ordinary disarmament. That exercise did enhance, at least in this country, awareness that the surprise attack problem is closely related to "mutual deterrence." A school of thought has developed among a number of people professionally concerned with military affairs that arms control can be a means of improving, or "stabilizing," reciprocal deterrence.

This branch of arms control is concerned, in a sense, with the protection of weapons rather than directly with the protection of people. It sees mutual deterrence as essentially an exchange of hostages between the major adversaries. Each side's guarantee against attack is that it has the other side's population in its grasp—not literally, but rather in the sense that it can hurt them as though it had them near at hand. To preserve the "hostage" arrangement means to preserve each side's ability to retaliate against the other, no matter what the other does first. Whether this is the most modern view of arms control, or the most ancient,

it is in striking contrast to the view that arms control is concerned simply with reducing the number and potency of weapons. And it is this view, more than any other, that has suddenly made arms control a respectable and legitimate preoccupation of people whose main business is military policy. According to this attitude, arms control is a possible supplement to national military policy. *It is a way in which enemies may cooperate to improve their joint weapons systems in a manner that makes less likely a war that neither side wants.*

Partners in dilemma

These circumstances pose a genuine dilemma. On the one hand, we are faced with an expansionist, unmannerly, boisterous Soviet Union that does not hesitate to reach into the Middle East, Central Africa or the Western Hemisphere, intimidating its enemies by a manifest willingness to take military risks, enjoying an expansionist momentum, and exploiting a newly alleged superiority in strategic weapons. At the same time, it is an enemy who, like us, could suffer enormous destruction in a major war, who is not altogether sure that a major war can be prevented, and who is somewhat at the mercy of an advancing weapons technology. This technology may create instability, a susceptibility to accidents, an excessive need to decide quickly in an emergency; and it aggravates the danger of a general war.

So we have an enemy and a partner. The enemy needs to be resisted, threatened and made to believe that we cannot be counted on to back down every time the risk of war begins to look frightening. The partner is one with whom we may wish to control our weapons so as to dampen the incentives to react too quickly, to minimize the danger of false alarms, to facilitate synchronized withdrawal from the brink in the event of a crisis, and to immunize ourselves as far as possible against mischievous or irrational attempts in other countries to ignite general war.

A possible combination of policies might seem attractive. On the one hand, we resolutely explore with the Russians our common interest in avoiding those weapons, or modes of deployment, that aggravate the possi-

bility of accidental war; we try to keep nuclear and other weapons out of the hands of irresponsible third parties; and we try to slow down the arms race in those areas where our actions cancel out and raise the danger of general war.

On the other hand, we resist and discourage limited aggression. But discouraging limited aggression requires confronting the enemy with risks great enough to give him pause. The possibility of being stopped by limited war may not be enough to deter him, especially if the limited war that he risks getting into is not one that he would obviously lose. How then do we deter his limited aggression?

One of the ways we do it is to threaten "inadvertent war." Whether or not our threat to initiate cold-blooded general war in response to limited aggression is a credible one, the Russians may well appreciate that a war resulting from a crisis or emergency, or one that grows out of a limited war, would not necessarily be characterized by cool, calculating decisions based on complete evidence and communicated with high fidelity throughout the military system. Things may just get out of control. While the threat we verbalize may not be terribly credible, there is an implicit threat that we may initiate (or force him to initiate) general war in ways that are not wholly predictable and not fully under our control. This may be a significant part of our deterrence.

Collaboration for peace

If so, we rely on an appreciable risk of general war to contain our enemy (partner). If collaborative efforts succeed in protecting us both against the likelihood of an unintended general war, they may simultaneously make the world safer for provocative actions, including limited war in a variety of forms.

In the long run, it appears foolish for us and the Russians not to collaborate in the control of weapons, at least in controlling the kind of weapons that other countries might possess. In the short run, virtually all of our relations with our main enemy are pure opposition and competition. Encompassing the long run and the short run in the same policy outlook will require unusual skill.

Subtlety as well as 'power' is involved. We have to *tame* the Russians. And we have to do so in time to tame the rest of the world with a degree of collaboration, rather than pure mischief, from the Russian side.

It is not at all clear how the Russians view these problems. The grandiose proposals for complete disarmament that Khrushchev has been brandishing are hardly compatible with a strong Russian conviction that arms control is serious and urgent business. On the other hand, to the Russians the U.S. position may seem equally cynical and casual. But the *potential* interest in arms control in the U.S.S.R., as in the U.S.A., may be a good deal more significant than is suggested by the treatment of arms control on both sides as though it were purely a matter of verbal competition.



Now, finally, we are back to our original question: How do the two parties compare in their views and programs for defense? If the above characterization of our present position is correct, the Democrats have an enormous advantage. It is they and not the Republicans who have been asserting the decline of our military strength. At the same time, in command of the Congress during the two years in which this position has begun to reveal itself, they have not on a grand scale used their legislative prerogatives to offset the Administration's complacency. Furthermore, it is not Eisenhower who is running; and the Nixon-Rockefeller accord, reached just prior to the convention, went a long way toward joining the Democrats in asserting that more,

much more, will be required in ideas and very likely in money.

And money most certainly will be required. Since the beginning of the Eisenhower Administration the defense budget has declined, moderately in dollars, more in purchasing power, and very appreciably as a per cent of gross national product.

Changes indicated

Although the present Administration is right in emphasizing that there would be serious inflationary problems with a substantial budget increase, it has tended to associate budgets with deficits as though it were out of the question to consider raising taxes again. It seems most unlikely that inflation would be a severe problem if taxes were raised to cover an appreciable increase in the federal budget. And it seems very unlikely that the privations and distortions introduced into the economy by a tax increase would be of a serious nature—by the standards we apply to war and peace. And it seems very unlikely that a new Administration would be unable to gain the necessary support for an appreciable tax increase associated with defense and foreign policy. The Democrats are clearly on record as the more ready to consider budget increases (and the President acknowledges that they are). But he is talking about increases in the budget deficits; Kennedy and Nixon may be promising tax increases.

Aside from the qualities of the candidates, the Democrats have one immediate advantage in the conduct of our military affairs. It will be much easier for a Democratic President, with a Democratic Congress, to acknowledge that our present position is exceedingly unsatisfactory, and that a change of direction is required. It is not nearly so obvious what the new direction should be, except that it is bound to cost money. To say that we cannot afford more—if more is required to provide a stable deterrence, to cope with limited aggression and to regain an appropriate measure of economic leadership—is to admit that the world is too rough a place for us. We have done a much better job of taming inflation than of taming the Russian and Chinese leaders. A shift in our emphasis is indicated. ■

Neither Party Offers a Brave, New Approach

by **MURRAY R. BENEDICT**

■ THE FARM ISSUE in the coming election does not center on opposing aims but on methods and philosophies of carrying out goals which the two parties have in common. Both Democrats and Republicans have tried to do two things in their 1960 platforms: (1) present a program that will appeal to large numbers of farmers; (2) include elements that will differentiate one party's program from that of the other party's. This last is not easy. The existing farm program has been in the making since the early 1920s and, in general, the opposing positions with regard to it have *not* been based on party affiliations.

During the 1920s, the central issue was the bitterly contested McNary-Haugen plan which contemplated a two-price, export-dumping approach. Though vigorously opposed by a Republican President, a Republican-dominated Congress not only passed the bill twice but, on the second try, came close to passing it over the President's veto. In the 1930s, Republican farm leaders and legislators joined with Democrats in shaping the far-reaching Agricultural Adjustment Act which included the then startling idea of paying farmers for *not* producing crops.

Differences in the approaches advocated by Republican and Democratic farm-state representatives did not show up clearly until the late 1940s. Even then, similarities in the position of the two parties were more noticeable than their differences—except in the case of the much-publicized plan of President Truman's Secretary of Agriculture, Charles F. Brannan.

The Brannan Plan called for man-

datory high-level supports on a long list of products and proposed direct cash payments to farmers for perishable commodities. But this was not, as many assume, an approach subscribed to by the Democratic party as a whole. It was a personal proposal and did not achieve strong support from either farm-state Democrats or farm-state Republicans in the Congress.

The anticipated party alignments that began to appear after World War II were not really sharp and clearly defined. This is demonstrated by the marked variation between the Senate and House versions of the Agricultural Act of 1948. Both were developed under the leadership of Republican chairmen, but so pronounced was the difference between them that neither could be passed by itself. Only through an 11th-hour, shotgun marriage of the two was the bill finally passed late at night on the last day of the session.

The Act as passed called for gradual revision of the outmoded parity formula then in use, which sought to re-establish, with little change, the price relationships of 1910-14. It also provided for the gradual reduction of the high support prices established during the war as incentives for all-out production. The Act was, in effect, an early version of what has since come to be accepted Republican doctrine.

Surpluses persist

The succeeding Democratic Congress virtually nullified the Act of 1948 by passing the Agricultural Act of 1949. This bill not only postponed still further the proposed retreat from high, wartime levels of price support, but actually increased them by using the "modernized" formula only for those commodities that would thereby have higher computed parities. This, of course, was a distortion of the concept of "modernized parity," the purpose of which was to reduce incentives for the production of crops in oversupply like wheat, corn and cotton, and to increase them for animal products, fruits and vegetables which are more in demand.

By 1953 the effects of these policies were beginning to appear in the form of continuing heavy production and mounting surpluses in the hands of

the Commodity Credit Corporation. The method used in supporting prices was for the Commodity Credit Corporation to take over such amounts as could not be sold currently at prices at or above support levels. This, of course, contributed to a rapid build-up of CCC stocks.

These multiplying surpluses led to a growing divergence in the positions of the two parties on farm policies. The Republicans, though pledging themselves to aim at full parity prices, have placed more stress on a gradual easing of support prices. The Democratic majorities in the Congressional agriculture committees have continued to advocate relatively high support prices, even if that would require more stringent controls over acreage or larger additions to government-held surpluses. The legislation actually put into effect has, of course, been a compromise that includes some moderate reductions of price-support levels and some new procedures for holding down production or disposing of surpluses.

The principal acts under which the farm program now operates are the Agricultural Act of 1954, the Agricultural Trade Development and Assistance Act of 1954, and the Agricultural Act of 1956. The Agricultural Trade Development and Assistance Act (P.L. 480) permits purchase of surplus farm products with the currencies of needy nations unable to purchase such supplies with dollars. The proceeds accrue as U. S.-owned foreign currency balances in the countries making the purchases. These funds cannot, at least in the near future, be converted into dollars and transferred to the United States. They can, however, be loaned to the recipient countries for internal development purposes. The procedure is similar in many respects to that developed for Western Europe under the Marshall Plan of the late 1940s.

The Soil Bank Act, a feature of the Agricultural Act of 1956, permits the Secretary of Agriculture to rent farms, or portions of farms, in order to take them out of production. This reduces both excess output and part of the expense incurred by farmers in producing it. This Soil Bank idea is a modification of an earlier program established in the 1930s under which farmers were paid for shifting land out of cash crops

and into the so-called soil conserving crops.

The existing program idles about 28 million acres, but technological improvements have been occurring at so fast a rate that production increases have more than offset the reductions in acreage. It is this that makes the farm problem so difficult to handle. We can't stop progress. We can't forcibly move people out of agriculture. And we find it isn't easy to retire land on a scale adequate to balance farm output with demand at prices that will satisfy farmers and members of Congress.

Too much, too little

There is another troublesome problem. The things we tend to produce too abundantly are not, in general, the things most needed by the hungry peoples of the world. We have wheat in abundance, but there is an oversupply of wheat in the world, and several other countries are as eager to dispose of their surpluses as we are. We have abundant supplies of corn, but this is a peculiarly American product useful principally as feed for livestock, especially hogs. Since many poorly fed nations do not raise much livestock and some of them do not eat pork, the amount of corn they can use effectively is limited. All these difficulties add up to an exceedingly thorny problem that will not be solved easily.

So much for the background to which the platforms must be related. Now, bearing in mind that platforms are likely to be vague and general, serving mainly as the indicators of general philosophies and attitudes rather than as specific blueprints for action, let us examine the implications of the platforms themselves.

The Democrats pledge themselves to support "the right of every farmer to raise and sell his products at a return which will give him and his family a decent living." Surely that is

vague enough to discourage any challenge to its specifics. But the platform does not touch upon the main problem here. How many farmers are thus to be assured of a "decent living"—five million? four million? Or perhaps the 2.5 to three million who could produce all the farm products we need if given free rein to do so? Part of the problem is just that. We have more farmers than are needed to do the job. If we are to keep all of them on the land and also provide them with a decent living, won't we be setting up a featherbedding program of unprecedented proportions? The Democratic keynoter spoke feelingly of the five million farm people who have left the land in the past 10 years, but perhaps he should have mentioned, also, that most of them left to take better jobs in nonagricultural occupations.

The Democrats say also: "We shall take positive action to raise farm income to full parity levels and to preserve family farming as a way of life." Here there is little reason to quarrel about the goal. The controversy is over how to achieve it. The measures proposed are "... production and marketing quotas, loans on basic commodities at not less than 90 per cent of parity, production payments, commodity purchases, and marketing orders and agreements." These are devices that have been used in the past with varying degrees of success and, except for the level of proposed price supports, they are part of the existing program. The proposal for higher price supports and for more use of production payments—i.e., direct payment to producers of the difference between market prices and governmentally guaranteed prices—are the principal points at issue.

Production payments have been in the program under one name or another since 1933, but currently are included, in that specific form, only in the National Wool Act of 1954

where, for a relatively minor commodity, they have worked moderately well and without unacceptably heavy cost. But the problem in wheat or corn or cotton is quite different. Loans and subsidies on these commodities designed to keep prices at 90 per cent of parity, or even less, have been a major factor in bringing into being the multibillion-dollar stockpile which is currently so troublesome.

Lower price supports do not automatically eliminate this difficulty. They do reduce the cost to the federal government, but they also result in lower prices to the farmer. The Republicans contend, however, that the farmer is better off with a less restrictive production program and lower prices. The corn growers apparently agree with that view, since they have voted to abandon acreage allotments on corn.

Impossible parity

Actually, universal support of farm commodity prices at 90 per cent of parity is not likely to be carried out by either party. The Republicans accept that fact of life; the Democrats do not. Republicans advocate the "use of price supports at levels best fitted to specific commodities in order to widen markets, ease production controls and help achieve increased farm family income." This approach is more realistic and almost certainly the course that will be taken no matter which party is in control. U. S. agriculture is far too diverse and complex to be fitted into a strait jacket of uniform price policies. The need for different programs, and for adjustment to varying conditions, has long been recognized by both parties. Hence, the variations in the pricing procedures used for the various commodities.

A full commitment to 90 per cent of parity prices would be disastrous for some products. In butter, for ex-



ample, such a high price level would undoubtedly spell ruin to an industry that already is deeply concerned about the inroads on its market made by a widely used substitute, margarine. Temporarily, at least, there would be a heavy build-up of butter in CCC hands—and we could not afford to repeat the costly giveaway program that was so severely criticized by other butter-exporting countries in 1954 and 1955. For the same reason, extensive government purchases of farm commodities—merely a different mechanism for doing the same thing—would be impractical. This does not mean that absorption of temporary oversupplies by the Commodity Credit Corporation is unmanageable or undesirable; but it does mean that such action normally cannot be undertaken on a scale that will assure a 90 per cent of parity price to farmers.

Another important item in the farm platforms of the two parties deals with plans for retiring land from production. Farm production rests basically on three factors—land, labor and capital. Efforts to increase or decrease output must, therefore, affect the situation by way of one or more of these factors.

Short of actual capital starvation, inputs of capital are largely uncontrollable. This applies also to improved technologies, which often take the form of increased capital input. Technological advances may not be slowed down by low prices. They may even be speeded up, as a means of reducing losses.

Land retirement

Labor can be withdrawn only slowly, and those who leave agriculture often are from the low-production, low-income group. They do not take their land with them. It may be made more productive by being incorporated into more efficient farming units.

Thus, the only factor that lends itself to fairly quick adjustment is land. That is why efforts to cut down acreage have had a prominent place in the various control programs from 1933 to the present.

The size of the acreage adjustment problem is indicated by a recent study made by Iowa State University with the aid of its electronic computers. The study concluded that an

outlay of \$1.3 billion a year could idle enough land to cut wheat and corn production sharply, bring an end to the piling up of surpluses and permit reduction of surpluses now on hand to manageable levels by 1970. Without government subsidies, the price of wheat could be held at \$1.50 a bushel and the price of corn at \$1.30 a bushel. In addition, livestock prices would be strengthened. To accomplish this the Soil Bank program would need to take out of production 62.5 million acres, as compared with the 28.5 million acres now idle.

To make these needed adjustments will be difficult, but the Republican platform recognizes that the adjustment needs to be made. It specifically mentions one of the perplexing aspects of it—the impact on local communities—and promises to give full consideration to that. It avoids saying that a logical and effective program will have to be on a region-by-region basis and will have to be centered most heavily on the areas that are major producers of unneeded surpluses. Though this is a ticklish problem, it is one that provides opportunities for bold and effective action.

One of the weaknesses of the plan for land retirement, as presently discussed by most groups interested, is that the heavy expenditures involved are only for rentals and do not result in government acquisition of some lands that probably should be shifted permanently into other uses.

On this issue the Democratic platform states that "We repudiate the Republican administration of the Soil Bank program which has emphasized the retirement of whole farm units, and pledge an orderly land retirement and conservation program." It is hard to make sense out of the apparent reluctance of the Democrats to take whole farm units out of production. Any program of land retirement on a scale adequate for the purpose will undoubtedly eliminate whole farms in some areas.

Where tens of thousands of farmers are endeavoring to eke out livings on farms that are admittedly too small, would their prospect for a "decent living" be enhanced by reducing their land acreage by some uniform percentage? These small farms might, of course, be exempted, as they now are in tobacco and cotton, but this has proved an admirable way to per-

petuate poverty in the rural areas.

On the whole, the Democrats seem to advocate a less vigorous program of land retirement than do the Republicans, and, as an alternative, urge stronger efforts to use whatever surpluses arise. However, that solution will not be easily achieved and certainly will be costly.

With respect to "Food for Peace," the program, whether spelled out by Republicans or Democrats, will almost certainly be bipartisan. Democratic Senators Hubert H. Humphrey (Minn.) and A. S. Mike Monroney (Okla.), as well as President Eisenhower, have been prominent in developing and popularizing this idea. The crucial problem is that of how to implement it. As already pointed out, our big surpluses are in wheat and corn. How much wheat and corn can actually be used in a Food for Peace program? Do we give surpluses away? Or do we sell them for foreign currencies, earmarking the funds thus acquired for U. S.-approved development programs? Representatives of both parties have pondered this problem, and the existing program is, in large measure, a product of their joint efforts.

More consumption?

On the domestic consumption front, there is little difference in the two platforms, except for the Democrats' promise to use a food stamp program, a pledge they probably will not carry out once they have examined it carefully. The food stamp idea has merit in a severely depressed economy in which there are many who are unemployed or only partially employed. It may well have a place in specific depressed areas. But if there is relatively full employment at good wages, the food stamp procedure is likely to be so thinly spread as to be top-heavy and unworkable.

On the school lunch program there is no important disagreement. Surplus commodities have long been fed into this outlet to about the extent that available commodities can be absorbed. But neither of these approaches, even if exploited to the fullest, will have much effect on the over-all problem of excess supplies. The quantities that can be moved in that way are too small. These are humanitarian programs, not solutions to the farm problem.

In the above comments on the two platforms, many minor features have been omitted. Most of these either are not of great importance or are so generally accepted by both parties that the differences are mainly those of degree rather than substance.

The major points of conflict will continue, as in the past, to center around the levels of price support and increased or decreased reliance

on government in the management of agricultural affairs. Republican philosophy will look to somewhat lower levels of price support, greater freedom of action for farmers, and a vigorous program of land retirement. The Democratic platform outlines a return to higher levels of support and more rigorous controls on output. Probably neither party will be free enough to carry out

fully the implications of its platform.

There will continue to be a considerable area in which decisions made in the Congress will not follow party lines. The relative emphasis on the one or the other type of approach will depend on the outcome of the election, and also in considerable measure on the personality and attitude of the man chosen as Secretary of Agriculture. ■

Schools as a political issue



EDUCATION NEEDS vs. PLATFORM PROMISES

by FRED M. HECHINGER

■ DURING a political campaign, the success or failure of a candidate depends on his ability to persuade the majority of voters that his training, experience and talents make him uniquely fit to solve the nation's most vexing problems. The more readily a problem, or a crisis, can be reduced to its simplest terms and its promised solution translated into a striking slogan, the better the candidate's chances. Dwight D. Eisenhower's 1952 slogan, "I shall go to Korea," is a classic example. It reduced to five words a major public concern and its hoped-for solution.

The candidates of 1960 will have a hard time topping the Eisenhower formula. The issues of war and peace, of economic expansion and technological competition, of underdeveloped areas and overcrowded cities are too complex for any simple promise to "go and conquer." One of the most complex issues in this election—one that will be especially difficult to wrap up in a simple, appealing package—is that of educa-

tion. A candidate can hardly promise: "I shall go to school."

Indeed, he can hardly hope to gain much political mileage from any promise to have another look at the schools and education. For every survey a candidate might propose, a half dozen completed surveys, studies and research papers could be presented to him. The recommendations of the 1955 White House Conference on Education are still in the nation's "IN" basket.

Both Presidents Truman and Eisenhower have contributed extensive reports on higher education: the President's Report on Higher Education and the President's Report on Education Beyond the High School, respectively. Several high-level Presidential commissions have focused on science specifically. National goals are currently being inventoried and recorded, presumably to be available for target practice by either winner. On the less official side, to mention the Conant report, the Rockefeller Brothers report, and

studies and recommendations made by the Committee for Economic Development and the American Assembly is merely to hint at the vast reservoir of available advice on the nation's educational needs.

Information on education is plentiful. The nation's need for better education and education's need for better support—and these are by no means the same—are serious. The people's demand for better and more education is real and insistent. But the "education issue" is too diffused—it is too many things to too many people—to be simplified into a single political program. Though I believe that the voters' concern about their schools and about the future of their children will be more important in this election than ever before, I do not see that there is any clear agreement as to how improved standards can be brought about or even what those improved standards should be.

The two party platforms on education, as on most other issues, are not very far apart, even though the orators may want to make them seem so. Both parties profess to believe in the necessity of federal aid to the schools, though the conservatives of both parties have, in past showdowns, managed very effectively to join forces to defeat such aid. The Republicans are actively and expressly opposed to such aid for teachers' salaries, but favor it for school construction. The Democrats would like aid to be offered to the states, without specific strings or prescriptions attached, applicable according to need.

Generally, the Republicans lean to grants to needy states, with strong provisions for matching grants by the recipients. The Democrats, though also aiming at equalizing inequalities and offsetting economic blind spots, appear to believe that it should

be left to each state to determine where the aid is most urgently needed.

In support of higher education, both parties want to help the colleges and universities to expand their facilities. Both parties realize that without federal assistance the campuses will not be able to cope with an enrollment sure to be at least doubled by 1975. But the Republicans would like to help largely by the extension of the present dormitory construction program, both through federal loans and some direct grants, while the Democrats favor outright grants for both dormitories and academic facilities.

National standards

The Republicans call for continuation and strengthening of the present student loan program and the graduate fellowship program; the Democrats are calling, in addition, for a massive undergraduate scholarship scheme. Both parties have, at various times, been playing with ideas of tax reductions for parents of college students, an approach that seems to be closer to the Republican heart. But, for the time being, any hope of translating such ideas into reality, without the obvious danger of inviting other breaks in the dam of the tax structure, is remote.

Naturally, both parties eloquently deny that they would invite, or permit, any federal control over education. Vice President Nixon has stated specifically: "Local control is the greatest guarantee against potential tyranny and certainly whoever controls education has tremendous power." It would be difficult to find a Democrat in 1960 who would disagree with this view.

Actually, even this apparently simple denial of intent to control education is not as uncomplicated as it sounds. There are many kinds of controls. Though Democrats and Republicans alike generally disapprove of such centralized direction of education, as has been the tradition in France and Germany, and though they both completely reject such totalitarian control of the schools as is exercised by the Soviet state, there are strong currents in both parties toward a far greater measure of central purpose and meaningful national standards. On the Republican side,

Gov. Nelson Rockefeller of New York has called specifically for the establishment of a national committee to advise the U.S. Office of Education. The Democrats want a revitalized and expanded Department of Health, Education and Welfare which would help to "plan and assert America's educational renaissance."

Different outlooks

On the surface, then, it might seem that on this vital issue of local control and greater national cohesion, the two parties are talking out of both sides of their political mouthpieces. But this is unfair. Local control of the schools does not necessarily preclude national standards. National purpose (as expressed by the federal government) and states rights are not necessarily mortal enemies; they were conceived as companions. And national standards in education need not imply national standardization.

Despite the similarities in the two parties' views on education, some real and distinct differences in outlook are emerging. In the main, the Republicans seem to stress the immediate but temporary emergency, while the Democrats are concentrating on long-term, if not permanent, planning. The Republicans, therefore, focus on the crisis of scientific manpower shortages and specific deficiencies in school curricula; the Democrats appear to be calling for a shoring up of the entire structure of American education. It is a difference between pinpointed improvements of a generally satisfactory system (Republican) and a sweeping reform of a system which, though based on sound traditions, is no longer considered in tune with modern times (Democratic).

The Republicans will undoubtedly claim the lion's share of the credit for the creation of the National Defense Education Act, the first large-scale federal aid legislation since the G.I. Bill of Rights, which provides loans and some graduate fellowships to students, with special preference given to future teachers, scientists, engineers, mathematicians and language experts. In the N.D.E.A. approach to foreign languages, the immediate crisis of American leadership in the world is invoked. Institutions have been offered dollar aid for the

establishment of language centers for the teaching of those languages approved by the U.S. Commissioner of Education—languages "... in which the federal government—or business, industry and education in the United States—needs proficiency."

The Republicans are also concerned about "a lack of understanding of the role of science and engineering in our society." Therefore, the Republican Committee on Program and Progress calls for the improvement of the educational system "to advance science."

On the Democratic side, the idea that today's education problems are temporary ones and created only or primarily by the present East-West crisis is emphatically rejected. The National Democratic Advisory Council said bluntly: "Even in a world at peace it would be priority business for our free society to help every young person develop his full potentialities through education." When it spoke of an immediate "minimum program," it added clearly that this would be an "initial" aid plan—the beginning of a permanent course.

Aid inevitable

The voter must decide, then, whether local control of education is more seriously threatened by temporary but sharply focused Republican aid or by permanent but broadly permissive Democratic aid. As for the financing question itself, there is no longer any doubt, except for purposes of political debate, that federal participation is inevitable. As this year's detailed report by the Committee for Economic Development has demonstrated, many of the poorer states are actually making a superior effort to pay for their schools; they cannot do the job without federal assistance. Whether the wealthier states can wipe out their own pockets of poverty without federal dollars is perhaps a political rather than an economic question. This is especially true where the sparsely populated rural districts outvote the overpopulated cities in the state legislatures, thus making it difficult to work out equalization programs within the states.

Federal aid, it seems to me, important as it may be, is a vital issue rather than a fundamental one. The truly fundamental problem is

that of national standards of education. There can no longer be any doubt that a nation which shares the problem of international competition—economic, military and cultural—and the even more basic problem of survival, must also accept the simple fact of shared educational aims. While local control may very well continue to be the safest way to assure essential freedoms, neither safety nor freedom can be assured as long as people are educated only as well (or as badly) as a local school board desires.

I find myself completely out of sympathy with those educators who say: "There is nothing wrong with American education that more money cannot set straight." The reform of

the American school to serve the needs of the technological revolution cannot be accomplished by merely "more money" for "more of the same." It is vitally important that the purposes and goals of America's schools and colleges be mapped out boldly. Only after this has been done can the bill be presented to the people. It seems inevitable that the total of that bill will be higher than anything we have been charged for education in the past. But it is not at all certain that the higher total will simply be the result of increased costs for each present item. There is very little doubt, for instance, that in the competition for high-quality manpower, the expenditure for teachers will have to be greater, not only in

terms of total dollars but also in proportion to the other slices of the education pie.

Unless I misread the real interest and concern of the American public, special pleas for specific programs for improved education will not accomplish much on the national scene. The voter who lacks interest in the larger issues of the nation's future is not likely to be impressed with any discussion of education anyway. This may very possibly mean that only a minority—but a large and politically powerful minority—will be influenced by education issues.

That crucial minority, I am convinced, is looking not for a quick cure-all, but for a roadmap to the future. ■

The issue of resource allocation

How Do We Get What We Need?

by **RICHARD A. MUSGRAVE**

■ LATELY the popular press has been devoting considerable attention to a political issue which, until recently, had been discussed primarily in academic circles. That issue centers on the question of what the nature and extent of public expenditure programs should be in our growing economy.

Though the issue itself has not come to the attention of the public at large until fairly recently, liberal-minded writers on national economic policy have been saying for years that the public sector has been increasingly sacrificed to the private sector, with the result that public services have lagged badly. The argument from the liberal ranks for expanded public services has become an incessant clamor, angering the conservatives of both parties.

Why are more public expenditures deemed necessary? The liberals point out that such expenditures would have a favorable effect on economic growth, on social welfare and on the cultural level of the American people.

They say that, under the all-persuasive pressures of advertising, these interests have been sacrificed to further the private use of consumer goods.

The liberals maintain that the required expansion of public services can be supported by the economy without difficulty. If the economy grows at a rapid rate, the automatic gain in yield from present tax rates should be of great help in financing these services. Some believe that the gain in yield will be so large as to cover the additional services and leave room for reduction in tax rates. Others, who visualize a less rapid rate of growth or greater commitments for defense, are not so optimistic; they are prepared, if need be, to increase taxes.

Public services

While the liberals grant that some additional public services should be supplied by state and local governments, they feel, for many reasons, that the major responsibility remains

with the federal government. In the first place, many of the services needed are of national importance. Certain others, needed only in specific areas, will not be supplied at all unless leadership is assumed at the national level. Moreover, the federal government's fiscal resources are larger, and the federal government is not involved in the interstate competition for low tax rates. Finally, since the federal government's revenue structure is more progressive than that of the states, the tax burden for public expenditures would be allocated in accordance with the individual's ability to pay.

Conservatives tend to doubt or minimize the supposed lag in public services. While few of them deny that such services must be increased over time to keep step with rising population and incomes, they tend to view with suspicion the current emphasis on the need for expansion. They maintain that, if anything, spending has been biased in favor of the public sector; some people are

inclined to believe that public services can be had for nothing—by letting others pay the taxes or through deficit financing. The conservatives, furthermore, feel that the consumer should be left to make his own choices. They maintain that the needs of the people are best served when costs are allocated by private individuals rather than by a centralized government. They do not feel we should be concerned over a high level of private consumption of tail fins and other hardware. After all, they ask, isn't consumption the very objective of economic activity?

The conservative position with regard to economic growth is that the high tax rates required for more public expenditures would result in a loss of incentive for investment. This, say the conservatives, would have detrimental effects which would outweigh the favorable effects of public services. They feel, furthermore, that increased public services might be a threat to sound finance. They feel that, above all, the budget should be balanced. And if the tax yield rises automatically with growth, this is no reason *per se* for increasing public services. Conservatives maintain it would be better to use the gain in tax yield to retire the national debt. Some feel this is desirable because they consider the debt a danger. Others, taking a more enlightened view, feel debt retirement is desirable because it increases the scope for potential private capital formation. As an alternative to budget surpluses, the potential automatic gain in tax yield could bring about a reduction in taxes. This, too, would be helpful to growth.

Opposing views

To the extent that an expansion in public services is needed, the conservative position favors that this be done, as much as possible, at the state and local level. The reasons for this are again varied and essentially the inverse of those given by the liberals in their argument for expanding public services on the federal level. If the responsibility is state and local, chances are that less will be done. Moreover, the state and local tax structure is preferred since it is less progressive; thus state-sponsored projects would impinge

less heavily on any one sector of the population. Mainly, the conservatives object to a greater degree of centralized government.

These, in a nutshell, are what may be considered the liberal and conservative positions in the debate. By and large, it is fair to say that the Democrats (excluding the Southern conservatives) lean in the liberal direction, while the Republicans (excluding the Rockefeller wing) lean toward the conservative view. The Democratic platform is clearly in line with the liberal view, while the Republican counterpart hovers somewhere between the two views, being more liberal than the Administration and Congressional record of recent years would suggest. It is reasonable to expect, at this stage of the game, that the two candidates will fall in line with their respective platform positions, but that the incoming Administration will be more con-



servative, in either case, than the platforms suggest.

The issue of resource allocation is made complex by the fact that it is not basically a political proposition. Some wants, such as food and clothing, are best met by individual private purchases in the market; others, such as highways and defense, can best be provided through the public budget. Now, of course, conservatives do not necessarily prefer food to highways; neither do the liberals prefer highways to food. Obviously, they need both; how much of each is a matter of individual taste. Why, then, has the choice between private and public services become a party issue?

If many of the things people need

—and should want—can best be provided through the public budget, then the role of government and group action gains in importance, and the level of taxation tends to be high—sufficiently high to permit distributional adjustments. (This is what is involved in the liberal view.) If, on the other hand, most of the things which people want can readily be obtained through individual purchases, then the role of the government is minimized, taxes tend to be lower, and the conservatives are pleased.

Political considerations

Thus, one's attitude regarding the proper division of resources between private and public services not only involves his preference between the two types of services, but also his attitude toward the political implications of one or the other resource use. From the point of view of efficient allocation, these political implications are unfortunate. They would not exist in a perfect system, but in the actual situation they are certainly a factor.

There is also the possibility that increased public services paid out of the budget would involve a certain redistribution of wealth. Low-cost housing, for example, would certainly benefit low-income groups more than high-income groups. (Perhaps it is significant that this project has much more appeal for the liberals than for the conservatives.) Another point is that the liberals, in trying to achieve a majority decision for more public services, seem to be trying as well to improve individual tastes. For example, they are trying to persuade the people that they need good schools more than they need big cars. Thus, the liberal is trying to educate people into knowing what is good for them. But, in presuming to know (better than the people themselves) what is good for them, the liberal puts himself in a rather awkward position.

To try to look at the issue from a historical perspective might help us to appraise the situation objectively. Total public expenditures rose from \$10 billion in 1929 (about 10 per cent of GNP) to \$110 billion (about 25 per cent of GNP) in 1957. Thus, while the absolute level of public expenditures increased spectacularly,

the *ratio* of public expenditures to gross national product rose by only 15 percentage points.

We must also take into consideration the composition of public outlays. Such expenditures are divided into purchases (of the services of government workers and of products produced by private firms) and transfers (social security payments, veterans benefits, interest payments on the public debt, etc.). Only purchase payments give rise to the supply of public services through the budget. In the case of transfer payments, the spending decision is left to the recipient of the benefit; these payments are, in a sense, nothing but negative taxes.

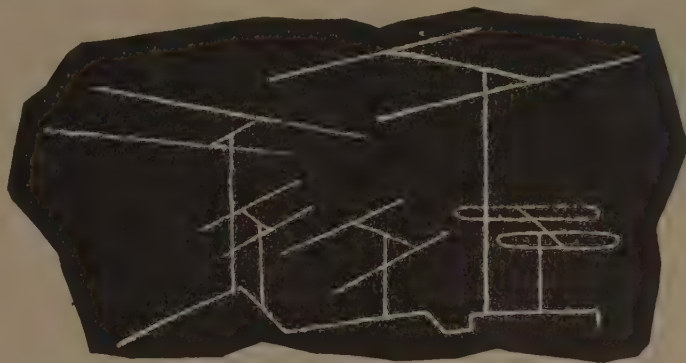
The main concern in the current debate, therefore, is with the level of public purchases. These are divided further between those for defense and those for nondefense purposes. While the proper level of defense expenditures is also being debated, it is primarily the level of nondefense purchases with which the current controversy over resource allocation is concerned.

Expenditures and income

Excluding transfers, the percentage of GNP devoted to government purchases (federal, state and local, including defense) dropped somewhat below prewar levels during the immediate postwar period (from 14.8 per cent to 13.1 per cent). It then took a sharp upturn (to 21.4 per cent) in the early 1950s, and since then has shown a slight decline. The present level is more than twice that of 1929 and one-third above that of 1939.

The picture is quite different, however, if we exclude defenses and foreign aid expenditures. The percentage of GNP devoted to public expenditures for *civilian purposes only* dropped to a record low immediately following World War II, the percentage for 1947 being about one-half that of 1939 (6.6 per cent compared to 13.5 per cent) and even below that of 1929. While the percentage has risen since then (to 9.7 per cent in 1957), it is still below the level of 1939 and not greatly above that of 1929 when government purchases for civilian use made up 7.5 per cent of GNP. Thus, though the total outlays for government pur-

chases for civilian use have expanded with rising income, such outlays have not tended to absorb an ever-rising *share* of total income. This is contrary to the impression frequently given by the conservatives.



Now, taking a separate view of expenditures at the federal and at the state and local levels, we find that while *federal* purchases for civilian programs during the prewar period accounted for 4.2 per cent of GNP, by the immediate postwar period they accounted for only 1.2 per cent of total output. Moreover, that percentage has declined ever since, sinking by the late 1950s to 0.6 per cent of GNP (equal to the 1929 percentage). If "lagging behind" is interpreted as failure to maintain a constant share in rising output, the federal government has, indeed, lagged badly.

Local spending up

At the state and local level, however, this does not hold true. Here the percentage of GNP devoted to public purchases has risen substantially since the early postwar years, and has now recovered its prewar position (9.1 per cent of GNP). Thus, while the federal budget has been burdened with defense obligations, state and local governments have increased their share in public services of the civilian type. This fact runs counter to the popular notion that, relative to state and local activity, there has been an ever-growing expansion of federal activity in the field of public expenditures for civilian purposes.

These facts, while interesting, are hardly conclusive. We cannot simply assert that public expenditures

are at their proper level if they maintain a constant share in total output. As national income rises, people may demand a larger share of their income in public services, particularly those of the "luxury"

type, such as parks and beaches. Or they may demand only the "necessary" public services. In this case, public services would take up a smaller share of national income.

Changing needs

Also, the need for public services varies according to time and place. Structural changes occurring in the economy may increase or reduce the specific need for public services at any particular time. The proponents of increased public services point to such areas as education, transportation (long distance and suburban), and urban redevelopment as needs arising out of more or less recent changes in the society. Also, they note that a wealthy society, such as ours, can afford to improve the economic condition of its aged people. To this list may be added economic aid to underdeveloped countries, civilian defense—including protection for the population and decentralization of industrial capacity—and space exploration. It would be impossible here to assess the adequacy of the present levels of public expenditure in each of these areas. Even if the pertinent facts are assembled, the final decision remains a matter of personal judgment and preference.

Consider, for instance, the matter of education. It is obvious that the rapid growth in school-age population will require expansion of personnel and facilities at all levels of

education. It is evident also that improved financial compensation for teachers is needed—especially at lower levels of education and in the poorer states—if education is to compete for adequate talent in the market place. Similar problems arise in the less well-to-do institutions of higher education.

But how important is it to maintain the quality of education, or to improve it? And how necessary is it to make such education available to a growing number of students? For one thing, expanded education is held to be necessary for economic growth—a contention which may be more valid for specialized than for general education. Another argument for better education is that it makes for a richer life and better citizens.

While I find these arguments persuasive, others may feel less enthusiastic, and I see no objective way of "proving" who is right.

Political leadership

Moreover, the political implications of federal aid to education complicate the picture. There are those who feel that if federal aid becomes available for supplementing teachers' salaries, we will soon have federal control over educational policy. Another thorny problem is the extent to which federal aid to schools should be related to federal policies on integration.

Similar stories could be told about any of the other areas in which expansion of public services is held to be necessary. Undoubtedly, many of these developments call for new types of public policies and new types of public services. But to decide how much and what type of help is needed in each case is not a simple matter. It must be decided in the political process. It is up to the political leaders to convince the public just which programs are needed, and to encourage leadership toward a more farsighted view of what is required. In short, political controversy ought to be encouraged on this sort of problem.

When all is said and done, there is little question that an expansion of civilian public services will be forthcoming. The question remains as to how this expansion will be financed. In support of the liberal

position, some have argued that finance will be no problem, provided the economy grows at an adequate rate. The expected gain in yield from present rates of taxation should suffice, or more than suffice, to meet all needs. Others, holding a more conservative view of growth potentials, hold that tax rates should be raised, if necessary, in order to meet these needs.

Let us subject these speculations to closer scrutiny. Assuming that federal tax rates would remain at their present levels and that there would be automatic increases of, say, \$1 billion yearly in present outlays for both civilian and defense programs, we are able to judge the adequacy of revenue increases that would be possible because of a faster rate of economic growth. Let us assume also a somewhat higher gross national product due to an initial upward adjustment in the level of employment.

Then with a growth rate of three per cent per annum, we could expect by the mid-1960s a gain in available revenue of about \$6 billion—above estimated increases in present programs. If we assume a growth rate of four per cent, the gain in available revenue would be perhaps \$12 billion. If we assume a growth rate of five per cent, the gain would be nearer \$16 billion.

Probable gains

One's appraisal of the budget outlook thus depends greatly on what growth rate is expected. Over the last 60 years, the average annual rate of growth was 3.2 per cent. Over the last 30 years, it was 3.3 per cent, and over the last decade it was 3.8 per cent. However, since 1953, the average annual rate of growth was only 2.4 per cent. General factors such as increases in the labor force and in the rate of modernization of capital stock should prove favorable to growth in the coming decade. Provided that a reasonably high level of resource utilization is maintained and lengthy recessions are avoided, a growth rate of four per cent may be hoped for, although a rate of, say, 3.5 per cent would seem the more likely guess.

An average growth rate of five per cent can be achieved only with a level of employment and capital util-

ization substantially higher than has prevailed in recent years. Consequently, an annual growth rate of five per cent is hardly in the cards.

Taking a growth rate of 3.5 per cent, chances are that the gain in available receipts will be somewhere around \$9 billion. This amount is substantial, but hardly covers the scope of the new programs which are being contemplated by the hopeful liberals.

Moreover, these figures are based on the assumption that national security expenditures will rise only at a very modest rate. If military power and economic aid programs are expanded very greatly, they will cost far more than the supposed additional \$1 billion yearly which I have estimated. In this case the available revenue for civilian expenditures will be far short of what is necessary for contemplated programs.

Costs and taxes

At any rate, for the foreseeable future, the conclusion is that though economic growth will be a great help in dealing with the fiscal problem of how to afford increased public expenditures, there is little reason to expect the automatic gain in revenue to take care of everything. This will be particularly true if, in the interest of growth, the government ceases to rely largely on monetary policy as a device for checking inflation and turns to broader use of fiscal restraints, a change which has been recommended on both sides of the fence.

Chances are that maintaining present tax rates will not harm our economy. Some measure of tax reform should even be possible within the present structure. In any case, in the debate over private versus public resource use, the problem of the level of taxes becomes extremely important.

In the long run it seems quite probable that any broad program of public expenditures will involve some increase in taxes. The question left for the people to decide, then, is whether they want the greater scope for private purchases that lower tax rates would give, or the improved public facilities and services that would be theirs as a result of a broadened program of public expenditures. ■

CHALLENGE NOTES

GROWTH WITH FREEDOM

How to allocate resources so as to get more growth is fast becoming the key issue of the campaign. "Growthmanship," as the politicians are coming to realize, is a "game" we have to keep on winning if we want to remain prosperous and free.

The question that no politician has yet dared to ask is: Are we, *as individuals*, equipped to play this game?

In a free society, this is quite as important an issue as the proportion of gross national product that should be publicly or privately administered. For, in a free society, basic allocation decisions are made daily by millions of individuals—in executive suites, supermarkets, in city halls, Congressional committees and the White House. Do these individuals know enough to make rational decisions?

In many cases there is reason to doubt it. An increasing number of daily economic decisions assume technical and scientific knowledge which most of us simply do not possess. As a result, more and more economic decisions are made on faith—that is, on the advice of our favorite experts.

This is true whether the individual in question is a housewife looking for a new washing machine, an executive trying to decide whether to launch a new product now or wait for his laboratories to come up with a more sophisticated product later, or a Congressional committee voting on appropriations for missiles. In each case important decisions upon which our prosperity depends are being made by individuals who rely on the advice of experts.

When, as often happens, the experts disagree, the decision makers can only look on in embarrassed and confused silence. For, how can the layman arbitrate between experts? In the final analysis, it is this gap between the very specialized knowl-

edge of the few and the general ignorance of the many which poses the greatest threat to our ability to grow in freedom.

INTELLECTUAL CAPITAL

The extent to which we have ignored the role of intellectual capital in sparking economic growth is also shown in our approach to the question of raising productivity. Most of us know that since the beginning of the Industrial Revolution improvements in technology have been mainly responsible for increases in output per man-hour. Economists estimate that improved technology has been responsible for approximately 90 per cent of the increase in output per man-hour since the turn of the century.

But when most of us think of technology we think of new machines and gadgets, not of the intellectual effort that produced them. But what *increases* output per man-hour in most cases is not the machine, but the new technology that goes into a better machine. Sometimes this does not even involve more capital. Technology may actually call for less capital expenditure; and it often calls for less expenditure of labor. The only factor which increasing productivity almost invariably calls for is more brains.

Nor can certain kinds of intellectual productivity be measured by the simple criterion of "getting more for less." A doctor's productivity, for example, does not necessarily rise as his patient load per hour goes up; it may actually decline. Physicians may be at their most creative (and productive) sunning themselves on the beach or playing Canasta. Certainly, there is very little connection between the amount of work done by the truly creative and their productivity.

In fact, our understanding of the role of intellectual skills in furthering economic growth is shockingly

inadequate. This would be a serious situation even in a primitive society. In the most technologically developed society the world has ever known, this ignorance concerning the primary component of the economic engine is truly alarming.

THE "NUMBERS GAME"

While it is dangerous to dismiss the economic challenge posed by Soviet growth rates, it would be foolish to evaluate Soviet achievements solely by comparing industrial production statistics. These can only measure certain "symptoms" of growth; they cannot measure the process itself. Other "symptoms" such as technological innovation may show quite a different picture.

The trouble with the "numbers game" when played by nonprofessionals is that it encourages us to draw sweeping inferences from very specialized data. Just how specialized industrial output figures really are is illustrated by the recent admission of Soviet academician S. G. Strumilin that Soviet statistics exaggerate Russia's growth.

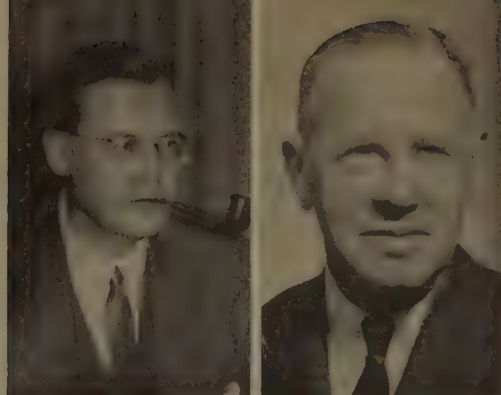
What is significant about this is not so much that a Soviet economist concedes the truth of what his Western colleagues have been saying all along, but that it shows how misleading statistical comparisons can be. For example, much Soviet accounting duplicates items at various stages in the production process. And some Soviet "industrial" growth merely reflects the fact that the USSR has a variety of prices for the same product.

Even more basic, however, are those things which production statistics necessarily leave out—intellectual achievement, technological innovation, quality of output, etc. These are some of the growth factors to remember when the statistics fly too fast and furious.

ECONOMIC TOGETHERNESS

During the 1956 Presidential election campaign, CHALLENGE ran a survey of Congressional opinion on key economic issues. One observation by a Congressman who shall be nameless, has haunted us ever since. Recessions, he said, do not worry him "as long as we all recess equally." A nonpartisan statement.—M.K.

What IS the Right Economic Policy?



Henry C. Wallich
Member, President's Council
of Economic Advisers

Seymour E. Harris
Professor of Economics
Harvard University

Q *Prof. Harris, you have been and still are an economic advisor to Democratic Presidential candidates. And Dr. Wallich, you are closely identified with the present Republican Administration. This discussion is likely to turn into a debate, wouldn't you say?*

Harris: Let me start things off by asking Henry what he is going to do after the Democrats take over in January?

Wallich: Without meaning to be political, being an economist myself, I don't think that is going to happen. I think the Republicans will win. But to answer Seymour's question, personally I shall be ready to turn my job over to somebody else because I have worked 14 hours a day now for two and one-half years.

Q *Do you expect any major changes in economic policy under the next Republican Administration, when and if the Republicans get in?*

W I cannot speak for the next administration, but basically I think it will continue to pursue growth with stability. That includes a great many things that are part of a continually improving program. The President's own program, of course, has evolved considerably.

Q *Do you think Mr. Nixon, if he is President, will be tempted to be what some people might call "more liberal" in his framing of economic policy?*

W I think that the whole trend of our economy, as it grows, will involve more activities of the kind that are appropriate to a highly industrialized, increasingly urbanized nation. Inevitably you will get more government activity and government expenditures that fit into that pattern. Now, I think the thing to aim at is that this goes forward as rapidly as it should, but that it doesn't get pushed beyond what it should. We need more for education. We would like more money for area assistance. We are now going into a health insurance program. We would like to strengthen housing. This is just part of a list. I would like to see these programs geared to a free economy. I don't want to see the free market cut off. In general, I would like to keep a flexible and adaptable economy.

Q *Prof. Harris, do you think that this list, as it has been interpreted in the last eight years, is moving rap-*

idly enough in a direction that Dr. Wallich tells us is desirable?

H Well, as Henry presents his position, or perhaps the position of the Administration (I don't know which), there isn't too much difference between us. There is a basic difference, however, as regards goals. The next Administration, if the Republicans are elected—as the present Administration has done—would put a considerable emphasis on stability—that is, much more emphasis on stability as against growth than the Democrats would. The Democratic position may be put as follows. If we can get a five per cent growth per year and a one per cent inflation, this isn't a bad record. But if we get the reverse, a five per cent inflation and a one per cent growth, this is a bad record. I think, on the whole, the Republicans have tended to stress the stability of the currency because they represent people with assets who don't want their assets depreciating. But the Democrats have been more inclined to worry about unemployment, among other things, and therefore have tended to favor some risks in price stability in order to achieve a larger growth.

Q *How does this reflect a difference in goals between Republicans and Democrats?*

H The difference in goals is reflected in a point that Dr. Wallich made when he said that the Republicans would want more spending on education, area development programs and so forth. Now, my contention is that this kind of spending has been kept down drastically because one of the fundamental objectives of the Administration has been to balance the budget and keep public spending down. And sometimes that objective has taken so much of the Administration's attention that more important things, like defense, an adequate education program, adequate housing, and so forth, have been forgotten.

Q *Any rebuttal, Dr. Wallich?*

W Well, I just can't agree with Dr. Harris at all. Public expenditures have risen far more rapidly than GNP, both at the federal and the state and local levels. It is true that a large part of the federal increase was for defense. But look at things like social security, which has gone from \$1 billion about 10 years ago to over

\$10 billion now; the highway program, which we didn't have at the interstate level; federal research expenditure obligations for fiscal 1960 at \$8.4 billion against \$1 billion 10 years ago. It is because some of these things expand so rapidly that a firm hand has to be kept on expenditures.

Q *How about the issue of growth versus stability?*

W It seems to me that we are differing here not on goals but on whether inflation, in the long run, is going to be compatible with growth. In the short run, an inflationary shock accelerates the economy. But if you figure that the cold war is going to go on for many years, it isn't clear to me that we would strengthen our position by letting the economy get in a condition such as some other nations experienced before they were forced to stabilize. The French rate of growth accelerated, for instance, after stabilization.

H On the problem of the rising level of government expenditures, may I point out that since 1952 the proportion of expenditures, in relation to GNP, of all governments has substantially declined since 1952. This is something that for some reason or other the Republicans never mention, and I have never been able to discover why. They look at the total number of dollars and think that if the total of expenditures in dollars has gone up, this is bad. They haven't put the spending in terms of the size of the national economy. Now, another point that Henry makes I must make a comment on. This is the great fear that a creeping inflation will develop into a galloping inflation. Dr. Wallich reminds me of Mr. Martin of the Federal Reserve. This has been Mr. Martin's position right along. But go right back to American history, over 100 or 150 years, and you will find that the average inflation has been something on the order of a little more than one per cent per year. And most of this inflation has occurred in war times.

No level of adequacy

Q *Is there a Republican formula that sets a limit on expenditures regardless of where GNP goes?*

W There is nothing of the sort. Nor do I think that Seymour's figures on spending in relation to GNP can be taken without some qualification. He picked 1952 as the starting point, which was a year of great build-up for Korean military expenditures. Naturally, the rate of expenditure did not continue at that level when the war came to an end. A relevant comparison should start with the last year before the Korean war, 1949. You will find that the ratio of public expenditures to GNP has considerably increased since then. You must remember that the pressure for additional expenditures is always tremendous. There is no level of adequacy. Seymour used the term "adequate" housing program, "adequate" education. Now we might agree or not agree with each other and the Administration on how much should be spent. But we could never really say what is adequate. A little more would probably often be useful, if it had no opportunity cost, if you weren't sacrificing something else. I feel quite confident that if we should spend

twice as much as we do, we would be saying no to twice as many people pressuring us for still more. That's the nature of the political process.

H Well, I am glad to see that Dr. Wallich is becoming a politician as well as an economist. I have always prided myself on being a political economist rather than an economist. Let's take a look at the issue of education, which I have been interested in for some time. It has been shown that the long-term growth of the economy has been about three times as large as you might expect in terms of the input into the economy of labor, capital, management, and all that sort of thing. Now, what is the explanation for this tremendous expansion of output as against input? I think everybody would have to agree that the major factor has been education. This suggests to me that expenditures on education repay the country many times over, not only in terms of cultural advances but in terms of growth. This is a position that the Administration has never recognized.

Q *How do you interpret the Administration's position, Prof. Harris?*

H We have a problem like the following in education. We start with public expenditures, exclusive of higher education, of about \$14 billion. We have to increase this to about \$25 billion by 1970 to maintain present standards and get an adequate supply of teachers. This is an estimate that has been confirmed by a number of experts in this field. Now, where are these additional \$11 billion going to come from, as well as about \$6 billion more we need in higher education? In that kind of a situation, and in terms of the whole international situation, the President, being pressed hard, comes out with a \$900-million program for higher education over four years, and basically nothing for public school education, except in defense areas. The President has not pushed his own bills. And then at the same time he offers the country a \$100-billion road program. This seems to me to be a crazy system of priorities, one that doesn't adequately recognize the importance of education in our life.

W Let me point out this. You say here is the highway program—too much for that, too little for education. Well, there are advocates of highways and there are advocates of education. You and I might be the advocates of education. There are also advocates of agriculture, advocates of various other interest groups—they all press. And they make headway according to the political power that they wield. Unfortunately, professors are in fewer numbers than people who ride in automobiles and like highways. As a result, when everybody presses on the budget, you get this over-all increase without much of an increase in the kind of expenditure that you and I might think ought to have priority. This is one of the reasons why I would go slow in pushing public expenditures in general, and stress private. Also, your figures are high, Seymour. The road-building program isn't \$100 billion.

H The original Eisenhower program was \$100 billion.

This was turned down through the leadership of a Democrat, Senator Byrd.

Q *Why should the President present a program of these dimensions if he is as great an economizer as you have suggested he is, Prof. Harris?*

H I think the answer is simple. The answer is: the President doesn't care very much about balancing the budget. He is interested primarily in balancing the budget account. If an expenditure like a \$100-billion road program is put into a trust account, the President is perfectly willing to accept it.

W I think what the President cares about is balancing the economy. At times when we have had a recession, for example, he was perfectly prepared to run a large budget deficit.

H Let's discuss that. Do you think that is really true?

W My own view of fiscal policy is, of course, that in good times it is advisable for the government to take funds from the taxpayer, which otherwise would go into consumption, and repay some debt, which will be converted to a larger amount of investment in the economy. That is a contribution to growth that the federal government can make through the free market.

H Well, Henry, let's look at what the federal government has done, and let's take the most recent episode—the recession of 1958. You know as well as I do that President Eisenhower did virtually nothing. He did accelerate some contracts (which he had cut down excessively, thus helping to bring on the recession), and there were some built-in stabilizers which helped greatly. We did have a \$13-billion deficit, for which we ought to be thankful, because this is what brought us back to recovery, although the Administration lamented the deficit no end. But the President opposed a tax cut strongly. The result was that when the GNP was going down at the rate of \$20 billion a year, the President refused to have anything to do with a tax cut.

W And his decision was vindicated. I remember very clearly how some economists were saying in May 1958 that this would be a deep depression, and that if there was going to be a turnaround, it would be toward Christmas. Yet the turnaround was already at hand. This was the shortest recession on record. Had we had a tax cut, it would not have added substantially to the speed of the recovery, but it would have greatly complicated our problems thereafter.

H The point is that the recovery was not due to anything the Administration did. The Administration was helped, for example, by the increase in pay for civil servants, which was something the Administration didn't like at all. This was a windfall. There was about a \$7-billion reduction in tax revenues as a result of the recession, for which the Administration can claim no credit. The credit goes to the New Dealers for having changed our tax system. There was a great increase in transfer payments, which again was a contribution of the earlier Democratic regimes. The Administration's own direct contribution was very small.

W When you look at the economy in a recession, you don't say: "I want to do it all." You look at the forces that are there, and if these forces seem adequate to produce quick recovery, then you leave well enough alone. These aids that you enumerate were all known and appraised, and they seemed adequate as they were to produce a quick recovery. What more do you want?

Q *Dr. Wallich, what would you say is the chief contribution to the nation of the two Eisenhower Administrations?*

W The maintenance of a high level of prosperity through most of eight peacetime years. The chief credit for this should go to the free economy, which the Administration has encouraged. When I contrast this with what people said in 1945 (bearing in mind that in terms of postwar periods 1960 is the equivalent of 1933), I think a lot of people figured in 1945 that another depression was indicated. We have done vastly better than anyone hoped, whatever you may say in terms of detailed criticism. The over-all record, it seems to me, is extraordinarily good—especially during the last eight years, which were peacetime years not aided by pent-up demand and the Korean war expenditures.

H I agree that on the whole the record has been good. My only contention is that it hasn't been as good as it might have been. There is too much of a hard core of unemployment and, in that sense, our development has not been as good as it might be. What is more significant, Henry, is that the per capita GNP growth under Eisenhower has been just one-fifth as large as it was in the Truman years. The major gains under Eisenhower were in terms of rises of population and labor market personnel, and not in rising productivity.

W It is not really per capita that we are thinking about when we want to measure output or welfare. It is really family income, isn't it? Now, disposable family income from 1946 to 1952 didn't increase at all. In fact, in constant dollars, it declined slightly. During the 1953-59 period, it increased by 15 per cent. What is the explanation of this? In the Truman period there was a great military build-up which contributed nothing to disposable family income. In the Eisenhower period there was a real increase in welfare.

H And may I point out, Henry, that in recent years, in spite of the strong, unfortunate, and almost fatal decline of defense expenditures in 1954-55, defense expenditures now play about the same part in the Eisenhower Administration as they did in Truman's. I don't think you need call the Truman period a military experience and the Eisenhower period a nonmilitary experience.

Future expectations

Q *Let's leave past records of growth to the historians. What do you gentlemen, as a Republican and a Democrat, expect of the future?*

W I think the economy has historically grown at about three per cent. I think we shall do better than that. I think that over the next 10 years the annual increment of labor force will almost double, and economic growth ought to be well over the historic 3 to 3.5 per cent.

I don't want to engage here in numerology, but the Joint Economic Committee, in its recent study of growth, came out with this estimate: if things went poorly, it might be 3.4 per cent; if things went well, it might be 4.5 per cent. So there really isn't a great deal for you and me to argue about here.

H I think, Henry, that you and I are agreed that we can maintain a growth rate of maybe four per cent. I myself think five per cent, an oft-cited figure, is fairly optimistic. I don't know how long you can maintain a five per cent rate.

W Without forced draft methods.

H But I do think that in order to have this rate of four per cent, you can't be nonchalant about two recessions in a short period. I think that is one thing that has cut down on the Eisenhower rate of growth. I think that unless you can increase your spending on education, housing, health and similar measures, you are not going to have a large rate of growth. These items bring about enlarged income, more than repaying their costs. And you mustn't assume, as Mr. Eisenhower has, and Styles Bridges has, and other leaders of the Republican Administration have, that public spending is bad and that private spending is good.

W I don't think anybody does that.

H I can quote you President Eisenhower's statement on that on several occasions.

Textbook economics

W But what the President says is simply textbook economics. He says that when an individual allocates his income, he can equate the usefulness and the cost of the expenditure. When the individual is made to pay a tax and receives in return services, the returns may, on average, be equal to the cost, but they may not be so for each individual involved. The adjustment that you can get when you shop for things in the market place does not take place. Thus, if there is a choice between providing things privately and providing the same things publicly, there will be a better adjustment of cost and usefulness under the private system. That's what the President said there.

H But the important point is that there are certain services that can't be done effectively by private individuals. And the question is: How far does the government go into these areas? And the President made a very specific statement in which he said that he didn't like to see money diverted into the public domain or the public sector because private individuals can spend their money so much more effectively. Now, on the average, this may be correct. But you run into the problem, for example, that you have to spend, say, \$11 billion more for education by 1970. Obviously, many people, especially those who don't send children to school, would prefer to have the money for alcohol and tobacco, and so forth. But it may very well be desirable, from the viewpoint of our objectives of public welfare and a fair distribution of goods, to have the government spend a larger proportion of our income than at present.

W I think you have to view existing expenditures for education and so on in the light not only of what you consider needs but also what improvement there has been over the past. You might complain about a \$500-million expenditure for basic research; this compares with next to nothing 10 years ago. The \$12 billion for private and public total research may not seem adequate, but this compares with \$1 billion 10 years ago. On education I think we are all agreed that we would like to have more. But it sticks in my mind that as of the latest survey conducted by the Department of Health, Education and Welfare, there was something close to \$20 billion spent on public and private education in 1958. This has been going up steadily in annual surveys, so that we are now at \$22 billion or \$23 billion total expenditures for education, compared with a little over \$9 billion 10 years ago. In other words, it has close to tripled over the period during which the GNP rose, in current dollars, by about 80 per cent. That's a tremendous build-up. I would like to see education take as large a share of GNP as it usefully can.

H As large a share as it can get away with.

W I would say as large a share as people are motivated to give it. That gets me to the thing you said before, namely, our goals. A goal like education, and really all other goals, ought to come out of the individual motivations of people. Some things cannot be done directly by the private sector, such as international relations, defense and, to some extent, education. But I would like to see this national purpose of playing a strong international role, or of raising our educational standard, or of accelerating our growth—I would like to see these things come from the grass roots up and not from the top down. People say we ought to devote ourselves to a cause. Well, surely we ought to. But people should provide the push in a democracy rather than a strong leader who might be tempted to do anything.

Attitude toward government

Q *Would it be fair to say, then, that a vital difference between Republican and Democratic viewpoints is the difference in attitude toward government?*

H I think it is probably true that the Democrats would give government a larger place than the Republicans would. Now, the real issue seems to me to come from what Henry just said: "Up from the grass roots." What does this mean in terms of public policy? It means, of course, that local and state governments should undertake these tasks primarily and not the federal government. But the state and local governments don't have the resources. They have very inflexible, unproductive tax systems. Their expenditures and their debt have increased by 300 per cent since 1946. They are in for trouble. The point is not only that they don't have the tax resources, but the taxes that they use weigh heavily on the low income people. Moreover, every governor, every legislature is terribly scared that a new tax increase will bring about a loss of industry to other states. The federal government, on the other

hand, which has very productive, very elastic sources of revenue, can do a great many of these services, and it doesn't have to worry about interstate competition. When Henry says that public services ought to come up from the grass roots, what he is saying is just what the Kestnbaum committee said and what Eisenhower has said many times—namely, let the people do it, which means let nobody do it.

W I think this doctrine that the federal government has the elastic revenues and state and local the inelastic ones is all wrong. Let me give you a few facts. Personal income tax rates run from 20 per cent to 91 per cent at the federal level. Local rates run from one or two per cent, up to, I guess, New York State's 14 per cent. Now, which of the two is capable of greater expansion? The corporation income tax, which is 52 per cent at the federal level, compares in some respects with local business and sales taxes. Now, which is capable of greater expansion? The local sales and business taxes, which are at the level of one to three per cent, or the federal government's 52 per cent. The fact is that the local resources have not been exploited nearly as effectively as the federal. Now, why? Because presumably the local people don't feel that the benefits are worth the extra cost. Here is the test of the market through politics. Is the expenditure worth the cost? At the local level you find that they say no. You shift it to the federal level and assume somehow that the federal government will supply these things cost-free. It will cost just as much through the federal government. It just goes either through the tax mechanism of the federal government or through inflation. The people don't see it, and that is why everybody would like to have things paid for by the federal government rather than by the state or local governments.

How to maintain a standard

Q Yes, but I think the point here is that at the federal level at least the job is done, whereas if left to the local and state level, it is not.

W I would like to see it done at the local and state level. And, if people are sufficiently motivated, and if they think that the expenditures are worthwhile, they will do it. If they don't do it, and you think they are wrong in not doing it, then you are raising a question of public values—and that, I fear, is considerably beyond our scope today.

Q States do, however, differ in their ability to finance public services. How do we attain and maintain a national standard under such varying conditions?

H I'm glad you raised that point. It is an important consideration in education, to cite one example. The state of Mississippi has behind each schoolchild only 20 per cent as much resources as some of the very rich states have. Now, if you don't have some federal aid here, you can be sure that Mississippi is going to have an awfully low standard of education.

Q Is this purely a question of not having sufficient resources?

H Yes. Actually, you will find the 10 poorest states put maybe two or three times as much of their income into education as the 10 richest states do. This is true in higher education as well as in lower education.

W Well, you noticed that the Administration's proposals for aid to education take that into account. It wants the matching contribution of a state to be in terms of the state's own level of income.

A national posture

Q A point often raised is that in these times of tremendous international conflict and danger, we do need a national posture. Is this done under a strong federal government, or can it be done under the Republican philosophy of nurturing local self-help?

W Obviously, the Administration's philosophy has been that things like defense and foreign policy must be done by the federal government, while others are better left to local or private responsibility. I gave you some examples before of the Administration's initiatives in the field of public services. I think under this system we will, in the long run, grow faster. Now, as far as growth is concerned, I think we have got to have a solid base on which to grow, not a disorganized economy that would be the result of a long period of inflation. I think we will have good growth under these methods. If we wanted to grow as fast as the Russians, I see no alternative to their forced draft methods. Then we should honestly admit that these involve controls, such as price controls, and so forth. One should not expect that the federal government can spend and spend and all will come out fine.

H Well, let me summarize my position and, incidentally, say something about Mr. Nixon. Mr. Nixon made a famous speech in St. Louis where he made fun of growth. He has had a change of heart since, but in that speech he said that not even by 1999 will the Russians catch up with the United States. I wrote a letter to *The New York Times* in which I took one of those compound interest charts, you know, and found that if the Russians continue to grow at a seven per cent rate and the United States has a growth rate of two and one-half per cent, as we have had in recent Eisenhower years, by the year 2000 the United States would have a GNP in stable dollars of \$1,350 billion and the Russians about \$3,500 billion. Now, this is not a forecast or even a realistic projection. But it just indicates to me that Mr. Nixon should not go around and say that anything is impossible. Now, the question then is: What is the difference between us? And I think the difference is, as we said before, that we put greater emphasis on growth than the Republicans do. What we propose is this: if necessary, we are prepared to have increases in taxes to give us adequate defense and welfare services. We propose to avoid these substantial recessions through effective monetary and fiscal policy.

W Well, you say you are willing to have higher taxes in order to attain certain national objectives. At the same time, you say you want to cut taxes in order to get out of recessions. Now, if you were the omnipotent economist king, perhaps you could do this. But the

fact is that had we cut taxes in 1958, it is not at all certain that we would have been able to raise them again, and we would have that much less revenue for our public functions.

Q *Dr. Wallich, do you believe we can meet the Russian competition without more government in the economy?*

W I have tried to face that question honestly before, in my writings and at other times. When you are at war, you go on a forced draft basis, as we did during World War I and World War II, and you achieve faster growth and a bigger output for particular purposes. It is up to each individual to decide whether he thinks the cold war is a situation of that nature. If he thinks so, then he should agitate for measures of that kind. But he should be willing to recognize that there is a cost in terms of controls that need to be imposed on the economy. He ought not to suppose that somehow we can go to a very high growth rate, as we might get under forced draft conditions, and not have to pay the cost of some restrictions on the economy.

Program of controls?

Q *Is it your contention that there is much in the Democratic program which implies controls of this nature, that there is an implication of the forced draft?*

W My complaint about some of their programs is that they don't confront this problem. When you add up all their promises, implicit and explicit, you come to government policies of deficit spending and easy money that will not be sustainable without an inflation and disorganization of the economy. Therefore, I think that if their policies were implemented—which I doubt—they would very soon lead us, and even compel us, to adopt measures of control. Galbraith says that in his book. He is willing to have some degree of price control. If anyone should want this kind of program, shouldn't they also draw the consequences?

Q *Would you say that these consequences are avoidable and unnecessary except in times of actual war?*

W Or if the cold war should get so hot that we conclude that we cannot any longer afford the full luxury of freedom.

Q *What standards would you apply for that?*

W Without undertaking to make specific judgments outside my own competence, I have faith in our free economy and believe that we can make enough headway with it, using all the resources that are available in that context, so that we can hold up our end. But no one can be sure that at some time the cold war will not get so pressing and so urgent that this would no longer be possible.

Q *Prof. Harris, as far as I understand your position, you feel that acceleration of growth rates and greater participation on the part of the federal government in welfare and education programs does not imply the beginning of a forced draft economy. Is that correct?*

H I think that is correct. I don't myself think, at the present time, we need to have any serious controls.

I do think we have to have an acceleration of the public programs I have indicated. I think they can be financed without any serious rise of deficits in relation to GNP. These things are not as costly as some of the economizers and budget balancers claim they are. This approach is the Democratic approach. We believe the government has a larger place in the economy than the Republicans allow. I believe the Democrats are more interested in the masses, and their policies stem from this greater interest in the masses. I think, for example, the Republicans, in their economic policies, tend to overweight the importance of investments against consumption. I think with this tremendous economic machine we have, we could put a little less emphasis on investment and a little more of consumption, public and private. One of the things that is pulling our economy down is the fact that we have this tremendous output, and we are not taking adequate measures to assure adequate purchasing power.

W You argue for more growth and at the same time you say you would be less concerned with investment. I don't see us growing faster by investing less. Also, when you say that in all probability we won't have to impose controls, what I conclude is simply that the programs you envisage are much smaller than they read when you add up what is said in these various proposals. In that case, it seems to me we have little difference in the degree of emphasis we place on growth. Neither of us, at the present time, is prepared to use forced draft methods. The possible rates of increase seem to be rather narrowly circumscribed, if I go back to the study the Joint Economic Committee put out.

Area of agreement

Q *So there is an area of agreement between you.*

H Well, let me just say this. I think Henry and I have, to some extent, tried to educate the politicians in what you might call modern Keynesian economics, which, in a sense, is what we mean by modern fiscal policy. We have that in common. I talked to Arthur Schlesinger, Jr., yesterday, and I said, "Arthur, I am going to have a debate with Henry Wallich in New York tomorrow." He said, "Oh, that's too bad. Why didn't you get so-and-so at Chicago and you really would have had a debate."

Q *Are you going to let Harris speak for you like that?*

W I certainly am no Keynesian, even though someone once referred to me as a "self-confessed Keynesian."

H You haven't washed yourself clean yet!

W I said in the preface of my latest book that there is good to be found in the teachings of both Adam Smith and John Maynard Keynes. So, I think we have no great quarrel over the analysis of the technique of fiscal policy. We do have certain differences in value judgments and in the possible effects the particular measures might produce. From there we might go on to establish different political positions.

Q *And these are the interpretations and the political positions which the electorate must consider and choose. Thank you gentlemen.* ■

UNION SUPPORT: *asset or liability?*

by NEIL W. CHAMBERLAIN

■ SINCE LAST JULY, when the Los Angeles and Chicago "carpenters" hammered home the nails in their respective labor planks, the two Presidential candidates have been busy giving the final coat of paint to what these workmen have fashioned. If there are no striking dissimilarities in the basic purpose of the two structures, there is considerable difference in the style of architecture.

In some respects it is anachronistic to think of the party platforms as embodying certain "labor planks." The welfare of all interest groups is so interrelated that it is next to impossible to put each in its separate pen and feed it a particular pap that produces votes. The interests of the union movement are certainly broader than the pledges which are labeled "labor." Nevertheless, there is always lively concern within the unions as to the attitudes of the two parties toward certain more or less traditional subject areas. Attitudes toward collective bargaining, union security, strikes and employment are among these time-honored topics.

In their call to the electorate, the Democrats refer to the present accretion of labor law as a "national antilabor policy" which has "seriously weakened unions," struck hardest at the poorly organized, and "perverted the constructive effort of the Democratic Congress to deal with improper activities of a few in labor and management." Thus, they have pledged themselves to repeal the "antilabor and restrictive provisions" of the Taft-Hartley Act of 1947 and the Labor-Management Reporting and Disclosure Act (Landrum-Griffin Bill) of 1959.

In contrast, the Republicans in their statement promise "diligent ad-

ministration" of those measures, adopting a "wait-and-see" attitude by assuring labor that they will be receptive to "improvements which experience shows are needed to make them more effective or remove any inequalities."

One aspect of present legislation of special interest to the labor hierarchy is the provision which permits the individual states to declare illegal certain union shop provisions of collective agreements which are otherwise legal under federal law. On this issue the Democrats come out with an "unequivocal pledge" for repeal, while the Republican statement seems to take away with the left hand what it gives with the right. First there is the statement of principle congenial to the labor leadership—"Republican policy firmly supports the right of employers and unions freely to enter into agreements providing for the union shop and other forms of union security." But this is followed by endorsement of the legislation which contains the offending "states' rights" provision.

Platform differences

Both parties see the need for improvement in the climate of union-management relations, the bolstering of free collective bargaining, and a more constructive approach to major strikes. Both would enlarge the Presidential functions in accomplishing this objective. The respective approaches have interesting differences, however. The Democrats call for general "leadership from the White House" to help achieve "constructive relationships between labor and management." They consider such Presidential intervention basic. "He will have periodic White House con-

ferences between labor and management to consider their mutual problems before they reach the critical stage."

The G.O.P., on the other hand, emphasizes a governmental hands-off policy except for mediation, believing that industrial harmony can best be achieved in a voluntary climate. It too believes in the efficacy of mutual discussion away from the bargaining table, but it promises only to encourage and not to take leadership in such powwows. But with respect to the problem of emergency strikes, a firmer stand is taken. After reaffirming the importance of caution so as not to impede "the processes of free collective bargaining," the platform affirms the need for "carefully considered ways . . . to strengthen the hand of the President in dealing with such emergencies."

On the minimum wage issue the two parties come close together, at least in their platform pledges. Both see the desirability of embracing "several million" more workers (the wording is identical) under a higher rate. The only difference is that the Democrats from the beginning were willing to specify the rate—\$1.25—which labor spokesmen have been urging.

Both parties promise to aid in establishing retraining and relocation programs for workers displaced by automation "or other economic changes" (Republicans), "to meet shifting employment needs" (Democrats).

In general, then, both parties have done their best to placate and please labor. But there is a great difference in the approach of the two political camps. The Democrats are more willing, albeit with care, to put their confidence in friendly relations with the top leadership of the labor movement. The Republicans are playing to the membership alone.

After the sweeping Taft victory in Ohio in 1950 against an all-out labor opposition, Republicans are more convinced than ever that there is no such thing as a labor vote. They are willing to risk the displeasure of the "labor bosses" by refusing to criticize the Landrum-Griffin Bill, which was aimed specifically at curbing abuses of labor power as revealed by the McClellan Committee. The Republicans are convinced that the rank-

and-file consider that act in the same light in which they see it, as a "bill of rights" protecting the little fellow against the excesses of an entrenched leadership.

Indeed, there is considerable evidence that the labor bosses' influence with the political bosses is currently lower than it has been at any time since the depression days of the New Deal. This may be seen in the Democratic reluctance to become more closely identified with the union leaders than is necessary to secure their support. Labor's traditional friend is sensitive to the charge that it has become labor's captive. The Democratic party is obviously inclining to the view that flirting with labor can lose as well as win votes.

The labor vote

What, then, is labor's political influence in an election? A movement which embraces some 18.5 million members (and with members' families included the total must run to at least 40 million voters) necessarily includes within it a wide variety of special interests and prejudices. There is no common labor creed covering all facets or even the principal phases of its members' lives. On one issue and one issue only is there any unanimity of outlook—economic security. On this one issue there is a meeting of minds of not only union members but of virtually all wage earners. Dependent on week-to-week employment for their livelihood, any threat to their employment can be expected to evoke a near-unanimous defensive response.

But when times are good the Republicans are right: there is no labor vote. At such times each union member feels perfectly free to exercise, as does any American, his own prejudices and idiosyncrasies. If he likes Ike, he votes Republican. If he is an internationalist, a segregationist, an antivivisectionist or a stamp collector, he votes for the candidate sharing his convictions or foibles. If he is strong for or against a particular issue, such as public assistance to parochial schools, or highway improvement financed by higher gasoline taxes, or a state income tax, he votes for the candidates who promise to support his views. If his brother-in-law is running for office,

or a member of the same fraternal organization, or somebody who reminds him of the block bully who beat him up as a youngster, he votes as he reacts.

In reinforcement of his own personal prejudices, his union leaders may give him additional reasons for favoring or opposing a candidate. Or with respect to opposing candidates to whom he has no particular reaction, he may vote his union's preference. But the vote of union members as a whole is bound to be dispersed as long as they feel no common threat to their livelihood. When stomachs and pockets are full, ideological loyalties tend to evaporate.

But let the chilling winds of layoffs and unemployment begin to blow, and union members will draw together for mutual protection. The pink slip need not have found its way into a worker's pay envelope to have its effect. If first a nephew has been laid off, then some of his own junior buddies at the plant, then a neighbor or perhaps a fellow deacon at the local Presbyterian church, the cumulative effect begins to tell in his political reactions. A five to six per cent level of unemployment may be enough to do the trick; seven to eight per cent would be almost certain to do so.

Under these circumstances there is a natural tendency for the wage earners' economic concern to float to the top of their thinking. They turn to the political party on which they think they can most rely for protection. Traditionally, the Democratic party has been the party of the urban workingman. This has been particularly true over the last three decades. If the laborer deserts the Democrats in time of prosperity, he returns to them in time of adversity. Thus, when times are hard, it is not

even necessary for the union leadership to remind him for whom to vote. The one important union function is to see that the vote gets out.

While it is true that the party out of power traditionally wins the by-elections, the size of the Democratic majorities in 1958 surprised many politicians. It should not have. For the first time since depression years, unemployment rose to the seven per cent level. The Republican Administration had, in keeping with its party's faith, placed a "sound" dollar ahead of "excess" federal expenditures. Economic uncertainty spread worry and sometimes fear among workers whose time purchases of houses, automobiles, appliances and TV sets had made them hostages to the future. The result was a labor vote.

Whether or not 1960 is also a year for a labor vote is more difficult to determine. The level of unemployment is on the margin of concern—almost reaching five per cent. It is probably not high enough to insure a gathering of worker support behind the Democrats, but it will undoubtedly swing some votes into their column which otherwise might have gone Republican.

How close a link?

This year another worry, as troubling as the level of unemployment, is bothering union forces. That is the persistence of the unemployment. The 1959 "prosperity" was not stout enough to draw back to work all those who could "normally" expect to be making a good living. Many laborers, temporarily out of work, have gone back to their jobs, but others have taken their place in the ranks of the unemployed.

The economic uncertainty prevailing in the business community, as mirrored in budget cutbacks and the gyrations of the stock market, has been no secret, and has added to worker uneasiness. How deeply or widely the concern is felt, or will be felt by Election Day, is impossible to say. Certainly an important Democratic gambit has been to play upon that worry.

If this is an accurate reading of the political picture as it applies to workers, one might reasonably wonder if the Democrats are being wise to de-emphasize their link to labor.



Would not now be the appropriate time to stress the bond between them?

My own belief is that the Democratic strategy is sound. Organized labor, despite its numbers, has come to represent a smaller proportion of the total labor force. Its strength is primarily with the male, manual, blue-collar workers. But the components of the labor force which have been showing fastest growth have been women and white-collar workers. Organized labor has made virtually no headway with these groups, and indeed has suffered some degree of alienation. What a decade or two ago was sympathy for the underdog has been converted, in part, to jealousy of labor as topdog—greedily demanding excessive wage increases, waging well-financed and protracted strikes to secure them, and giving an upward thrust to the prices which others must pay. It is not important whether the picture is accurate (actually the service groups as a whole have benefited more than the manualists), so long as it is entertained.

Risky identity

The exposures before the McClellan Select Committee have provided additional and more righteous grounds for the swelling numbers of suburbanites (on the whole a proper people) to increase the social distance between themselves and the picket-line placard carriers.

In the light of these developments, it makes good sense for the Democrats to soft-pedal their link to organized labor while continuing to espouse labor's cause, as in the past. To identify their party with the labor movement would risk estrangement of the white-collar and suburban groups who do not regard the union as their spokesman and are suspicious of the purity of its motives. At the same time, by continuing to champion employment security and social security measures more heartily than the G. O. P., they stand ready to harvest the labor vote whenever economic circumstances produce it.

If this sounds calculating, it is; but at the same time one must add that it is the product of the labor movement's failure to make contact with the white-collar and suburban world. Efforts still in progress make

clear, however, that labor has not yet given up the task as impossible. New drives to attract white-collar and professional groups are either under way or in the process of being formulated.

New approaches

My own guess is that not until a new and separate white-collar and professional federation is launched on quite different lines from the AFL-CIO, independent of it though in all probability cooperating with it, will these diffident groups form their own societies. It is too much to expect the AFL-CIO to finance such an independent movement or even to concede such expanding groups their separate role. But until something of this sort happens, it is likely that the labor movement's political influence will wane.

If this analysis is sound, the Democratic party is shrewd to allow its relationship with organized labor to cool off somewhat. In any event, the romance of the 1930s and 1940s was too hot not to cool down. Both the times and the principals have changed.

Regardless of who wins the November election, the incoming Administration will have to face cer-

restrictions on union activities. Second, there is an assertion that government must pay more attention to areas of social welfare and economic planning.

Let me pass over the first of these predictions quickly. Labor's protests that it has been weakened by legislation will probably attract no more sympathy than did management's similar protests in the 1930s. The fact is that the labor movement today is not the same puny and half-starved stepchild that it was when protective legislation was accorded it in 1935. In the intervening years it has accumulated powers. Subsequent legislation has put certain limitations on those powers, but this is not solely attributable to an antilabor conspiracy, as union spokesmen would have it. This legislation simply reflects the fact that in our kind of society all private interest groups are subject to restraints in the common interest.

Restrictions here to stay

Organized labor may maintain that present regulation of its activities contains injustices and inequities. This may be the case, though it is doubtful that any flagrant instances may be cited. But the best



tain problems in relation to organized labor much more serious than a demand for payment on the platform's promissory note. Certain issues are being precipitated which go beyond partisan platform pledges.

Let me try to put the issues in perspective. The demands which labor customarily makes on political parties and governments fall into two categories. First, there is the aggrieved insistence on a relaxation of

it can hope for is minor modification. Major legislative changes restoring the freedoms of an earlier day simply are not in the cards, under either a Democratic or Republican Administration, though a Democratic government would unquestionably be a little friendlier to labor in applying existing legislation.

What, then, of the second major category of economic and social planning? This problem is bound up with

the current hassle over economic growth. The question is whether or not the current growth rate is adequate. If not, should it be stepped up by the forced feeding of governmental measures on the one hand, or by the creation of a more congenial climate for business expansion on the other? There is no doubt where the unions stand on this issue, and no doubt of their preference for the Democratic platform, which makes full employment "a paramount objective of national policy." The Republican platform simply accords this objective "high priority." Similarly, the Democrats show no reluctance in setting a target rate of growth of an average of five per cent a year, while the Republicans are content to set the less specific goal of "vigorous growth."

A matter of urgency

The growth controversy has been deprived of its underlying significance by our refusal as yet to face the question, "Growth for what?" Are we arguing about growth for its own sake? Are we on some kind of an uphill treadmill that requires us to keep running upward to avoid running down? Or are we talking about growth which is needed to achieve certain national objectives?

One concomitant of our affluent society has been the belief that our affluence permits us to be wasteful, to indulge ourselves in more leisure, to take long strikes in our stride as an incidental cost of a free society, and to engage in other forms of profligate activity. But such an attitude betrays not simply lack of necessity, but also lack of objective.

The incoming Administration will probably face, on two fronts, a quickening pressure which has already been felt. One is to expand the streams of public expenditure on such increasingly urgent needs as improved education, better health facilities for the public at large, urban renewal, more and better transportation media of all forms, and so on. Any lingering belief that such matters can be adequately handled by private initiative alone, or at current levels of public expenditures, will be come expressions of a minority opposition in Congress, regardless of which party takes office. This will not happen immediately, to be sure,

but the trend and the reasons for it are too apparent to be denied.

The second front is international. The recent conventions made much of the Lincolnian assertion that the world could not long endure half slave and half free—that is, presumably, divided into the two contending cold war camps. I think it is at least as true that the world will not long continue in a state which allows five per cent of its population to control 25 per cent of its wealth. It is only a question of whether we will, by ourselves, move rapidly enough in providing increased foreign assistance to forestall pressures which otherwise we cannot resist. We will not be able to protect our privileged position by retiring to a new concept of Fortress America.

In any event, my own belief is that the inexorable force of circumstances, both internal and external, will impose fresh national objectives on us, whether or not we choose them for ourselves. We will need growth not for its own sake but to reach our goals. The consequence is almost sure to be a lessened tolerance for waste and inefficiency—an increased attention to the same kind of rationalization of economic activity that business has already embraced.

Further consequences are almost sure to involve a push for technological improvements, an accelerated rate of capital investment, an elimination of unnecessary operations, a search for improved social mechanisms which will avert the madness of 120-day shutdowns of whole industries, and updated means for improving labor mobility (without regard to jurisdictional claims or membership rolls of individual unions).

The national effort

These things will not all happen within the next four years, to be sure, but if I am right in thinking they have already made more than a beginning, the next four years will carry them further. The effects will be felt in both labor and management circles.

Indeed, both these interest groups and their political allies will be faced with profound adjustments. The notion of a national push to a grand objective is quite compatible with the Democratic philosophy, but it

will be difficult for that party to swallow tax or depreciation incentives for business investment, increased productivity through increased labor efficiency and alternatives to a free exercise of the strike weapon. The Democratic party and its labor friends will find it relatively easy to accept the over-all diagnosis but bitter to take some of the medicines thereby prescribed.

On the other hand, Republican thinking—if the 1960 convention is a sample—will find it hard to adjust to the idea of national goals, if this means accepting targets of growth and production. Republicans and their supporters in management will accept with relish many of the details which such a program would foster, but would choke on the broad proposition that full employment is essential because we cannot afford unemployment.

We would then face the peculiar spectacle that labor and the Democratic party would move with alacrity up to a table spread with bitter herbs, while management and the Republican party would protest at being force-fed with sweetmeats. And the behavior of each would be due at least as much to a lack of forethought as to principle.

Timid stand?

For all the care that went into the word construction at Los Angeles and Chicago, the real architects of party program in the next four years—regardless of which party comes to office—will be the swiftly flowing currents of our times. For all the sincerity that went into committee discussions and backroom debate, those currents are carrying us into a future which will demand far more sweeping adjustments than the Democrats' New Frontiers or the G. O. P. Challenge to Communism envisages.

Both labor planks in 1960 continue to fight old fights. By and large they recount old favors granted and repeat old promises. But the coming years promise a different parcel of problems. Perhaps it is expecting too much to think the party labor platforms should have touched on these new problems. These documents are designed, after all, to win or hold political support—not to challenge prejudices with which we have grown comfortable. ■

HOW PEOPLE VOTE— AND WHY

by ROY V. PEEL

■ POLITICAL CAMPAIGNS are segments in the pattern of political development. A complete study of a campaign, terminating in the election, includes (1) a study of the strategy, tactics and techniques of the party candidates, and (2) a study of the electorate which is acted upon. It should also include (3) an analysis of other forces which influence the action of the candidates and the behavior of the voters. In this article, the emphasis is on the second and third approaches, with only minor attention to the personal traits and actions of the candidates.

Although I intend to emphasize national elections, I must call attention to the fact that on the local level the nonpartisan movement has weakened party cohesion and encouraged "independence" in politics. In well over 60 per cent of all municipalities, council elections are nonpartisan; and even in large metropolitan cities, government is now conducted in a nonpartisan manner. In a sample survey of local government, out of 363 better known cities, I found 105 Democratic mayors, 39 Republican and all the rest nonpartisan or independent. The widespread adoption of nonpartisan local governments must have had the effect of weakening traditional party loyalties.

Analyzing the electorate presents some problems in the organization of data. There is one type of classification based on highly stable characteristics,

such as sex, race, nationality and physical constitution. In another type of classification the characteristics are relatively unstable, such as residence, occupation, religion, income and habitual political identification. In a rapid sketch such as I am attempting, generalizations are made on the basis of many and repeated studies, in some of which certain factors are held constant. We may say with some confidence that these generalizations are quite plausible.

Voting habits

In the Campbell-Cooper studies of the 1948, 1952 and 1954 elections, it was learned that "as age increases, the ratio of Republican to Democratic voters increases." The best voting record in recent years has been shown by the 45-54 age group, which has a Republican tendency. Since the Democratic party has chosen a young man as Presidential candidate in 1960, it is reasonable to suppose that it will make an effort to stimulate the voting of the younger age groups where it has an advantage. The Republican candidate is in the same "popular age bracket" (40-50), and he may be expected to exploit both his "youth" and his comparative maturity. (He is four years older than his rival.)

In every national election since 1948, more women than men voted Republican; also, more women than men participated, but the ratio is reversed in the off-year elections. Although the samples on which these conclusions are based were very small, most observers believe that they are reliable. They account for the electoral behavior of women by the socioeconomic factors underlying the vote. If present trends in relative augmentation of potential voters in the middle- and upper-income groups continue, the Republicans will gain a small advantage with respect to the votes of women. But with no charismatic leader such as Eisenhower on the ticket, it is not likely that the advantage will be substantial.

The only racial group which has been given attention by most students of political behavior is the Negro. The reason for this is that Negroes are more clearly identified, more easily located, and they are

now, as they have been for nearly a century, at the heart of the civil rights issue.

"Negroes were one of the very few population groups that did not shift toward Eisenhower in 1952" (Campbell-Cooper). Their loyalty remained unchanged in 1956. In the border states which went Republican in these years, greater participation by Negroes might have preserved those areas for Stevenson. The Republicans will attempt to retain their border state pluralities of 1952-56 by catering to anti-integration sentiment and to recapture the Negro vote in the North and West by contrary appeals. The Democratic party platform, the composition of its ticket and its presentation of the issues have been designed to minimize both racial and sectional conflict and to maximize the national appeal.

It is well established that in recent years a higher proportion of Catholics than Protestants have voted. The Catholic vote in 1948, 1954 and 1958 was about two to one Democratic, whereas Catholics divided about evenly between the parties in 1952 and 1956. It must be remembered that Catholics constitute only 25.7 per cent of the population. Their vote is significant only in "close states."

Whether the Catholics who gave a disproportionately large vote to Eisenhower in two elections were "stay-at-homes" in previous elections is not known. It seems likely that in 1960 a high proportion of Catholics will vote Democratic for two reasons: there is no nonpolitical candidate on the Republican ticket to attract Catholic independents or bolters; and the normal tendency of Catholics to prefer the Democratic candidate should not be discouraged by the circumstances that the Democratic candidate is Catholic.

In normal times, the vote of Protestants is about evenly divided between the two major parties. A persistent low voting record is attributed to the fact that most Negroes and most Southerners are Protestants, and these two groups normally do not turn out in great numbers. In 1952 and 1956, it is believed that the majority of the crucial Eisenhower independent vote was Protestant. Now, in 1960, the presence in the Kennedy camp of many Democratic

leaders who have more than a casual affiliation with various Protestant churches suggests that Sen. Kennedy's Catholic affiliation will not precipitate any mass movement of Protestant Democrats from the party or activate Protestant independents to cast their ballots for the Republican candidate.

Until the 1930s, *Jews* tended to vote Republican. During the Roosevelt era, the recognition which the Democratic party showed Jews in New York, Illinois and in Washington reversed this tendency. As late as 1952, Jews supported the Democratic party by more than two to one. Jews are not numerous enough to exercise the balance of power, but they are concentrated in pivotal states. Any noticeable shift in their party allegiance in 1960 could very well influence other minority groups to return to the Democratic party.

Lower status groups, as identified by income, education and occupation, tend to participate less in politics than higher status groups. Although this class tends to vote Democratic when it does participate, the proportion which votes Republican in upset elections is larger than the proportion of the "middle class" which switches to the Democratic party. This, on the face of it, would seem to indicate that, as the middle class gains adherents, the Republi-

number of gubernatorial and senatorial elections.

If one removes the Eisenhower influence in the 1952 and 1956 elections, organized labor has been more strongly Democratic than any other economic group since 1936. Even though workingmen have responded to the same forces and conditions which have influenced the rest of the country in the past quarter century, unions clearly prefer the Democratic party. Because of Republican support of legislation hostile to labor in 1958 and 1959, it is thought that labor's devotion to the Democratic party will be unshaken.

The Eisenhower tide

The concentration of control over big industry in fewer hands has generated a new class of white-collar workers, the *new middle class*, salaried but well paid, owners of securities but without any control (Berle) —and fairly mobile. The proportion of nonvoters among these people is high. Undoubtedly, many of them supported Eisenhower in two bursts of exceptional electoral participation. This group, and the one with which it is closely allied — the small proprietors and middle-income professional class — probably account for the rapidly fluctuating fortunes of the parties in gubernatorial and municipal elections.

The *farmers*, who voted for Truman in 1948, had begun to waiver in their loyalty to the Democrats in 1950, and in 1952 voted Republican along with the rest of the North and West. In 1956, they stuck by Eisenhower, but in the Congressional elections of 1954, 1956, 1958 and the "bye-election" in 1960 (North Dakota) they gave the edge to the Democrats. Louis Bean, who is primarily an agricultural statistician, in a study of the farm vote from 1920 to the present, found in today's mountainous surpluses of wheat and corn, and in the persistent decline of farm prices and farm income, sure harbingers of a drop in Republican strength in the general election of 1960.

By 1910 the Democratic party had become firmly entrenched in most of the *great cities* of the North. From 1948 to the present, practically all of the great cities passed over to the Democratic party, except in the 1952 and 1956 Presidential elections. But

while the cities tend more and more to support the Democratic party, the *small towns* (in the North) are more frequently Republican; and the middle-sized cities divide according to the traditions of which they are a part.

In normal times the *suburbs* of the large cities of the North and West vote Republican. However, at no time have these suburbs given such a large plurality to a Republican Presidential candidate as they gave to Eisenhower in 1952 and 1956. By 1960, observers could note the gains made by the Democrats in the Congressional and local elections in all the years since 1952, and conclude that Eisenhower's margin of victory in metropolitan areas was produced for him by the "stay-at-home independents" in the suburbs, not by former Democrats who exchanged their party convictions for a mass of country club pottage.

Turning now to the study of voting behavior in large geographic regions, we find ourselves on familiar ground. We still speak of "the South" as a unit, but when we are forced to recognize the realities of social, economic and political cohesion, we find that new classifications emerge. The Deep South retains much of its old cultural and political homogeneity. Hoover's election in 1928 dramatized the emergence of the border states: Florida, Virginia, Kentucky, Oklahoma and Texas. Later experiences and sharper analysis enabled us to distinguish a marginal belt of communities on both sides of the border: Delaware, Maryland, West Virginia, North Carolina, Tennessee, Missouri, the southern portions of Ohio, Indiana and Illinois, and Louisiana. What identifies these communities is not that they consistently vote the same way but that they systematically rebel against the ideologies and leadership of the larger communities of which they are a part.

Changing South

Although the segregation issue is very real in the South, responsible leaders realize that it cannot be allowed to take priority over everything else. Reports that population and economic changes in the South parallel those in the North suggest that urbanization, mechanization of



can party will benefit. As a matter of fact, studies of the distribution of actual voting in all elections since 1946 show a clear preponderance of middle class citizens voting Democratic, except in the Presidential elections of 1952 and 1956 and in a small

agriculture, the need for aid to education, and other national issues will, in time, have an impact on Southern politics similar to that which they have had on the politics of the North. When there was talk in 1960 of the possibility of the Southern Democrats bolting the party, it was pointed out that they had "no place to go." This applies particularly to the Deep South. It does not apply to the border states or the regional marginal areas.

The assumption that the Eisenhower majorities require special handling is based on the theory that in America we actually have three large political blocs: the Republicans, the Democrats and the independents—the *third force*. In a fixed electorate, where everyone votes, the third force is composed of the "shifters" and the "ticket splitters," the latter term being self-explanatory, and the former meaning persons who vote for one party at one election and swing over to the other at the next election. This type of voting behavior is not new. In Indiana, for a century, a critical percentage of the voters has been swinging and splitting, giving the Hoosier State the well-earned reputation of being doubtful.

The independents

From a Republican source we learn that the real independents (shifters and splitters) account for only three or four million votes. The "stay-at-homes" or "indifferents"—more accurately, occasional voters—number about 45 million. These are the critical blocs of citizens, the target groups. From these persons Eisenhower obtained the pluralities which enabled him to win in 1952 and 1956. In general, the "stay-at-home . . . tends to be nonpolitical. His opinions on political matters are not very well informed, if they exist at all . . . His primary patriotic motivation is a somewhat vague sense of national loyalty, and he is susceptible to appeals that ask him to participate in a nonpolitical and nonpartisan plebiscite." In other words, he distrusts politicians, and he goes to the polls only to help take matters out of their hands.

In 1960, it is extremely unlikely that this great bloc of voters will feel drawn to the polls by the can-

didates of the major parties. Both Kennedy and Nixon may choose to let them resume their customary abstention from voting. However, regardless of whether either candidate has any illusions about himself as a "nonpolitical," his managers will certainly try to stimulate discriminating voting among those who did not vote in 1958.

Among these nonvoters are: young people who have just come of age; young voters who are slightly older and who have not yet acquired firm habits of participation; women; Negroes; farmers; nonunion workers, lower status groups; and service workers. If past experience is any guide, the Republican party will enlist the aid of the media, the chambers of commerce and women's civic associations to overcome general apathy. The Democratic party will concentrate its efforts on getting maximum yield from the potential Democratic vote and the hope that undifferentiated attempts at voter stimulation will net them a fair share of the new voters.

Peace and security

In nearly every country there are three great aspirations: security, peace and plenty for all. Since the proportion of pathological persons who want war and denial is small, there is consensus on these great goals—but not on the methods of preserving or attaining them. Statesmen therefore create issues by presenting alternative procedures for realizing these goals, and also formulae for conveying these benefits in varying proportions to different segments of the people.

After World War II, tremendous changes in the world and within the United States have set the stage for a radical readjustment of problems to be solved, demands to be met and pressures to be resisted or absorbed.

It is not to be wondered at that politicians and parties find it impossible to avoid all the dilemmas which are imminent in the process of attaining peace. Now with such ultimate weapons as atom bombs, guided missiles, nuclear-powered submarines and chemical substances of frightening potency developed since 1946, another war would surely destroy civilization.

But American statesmen must also

satisfy in some way the compelling demand for security, for national integrity, for postures of predominance. When we see how sadly unprepared the United States and other great nations are for coping with forces of such bewildering complexity and catastrophic potentiality, we understand why in the Presidential campaign of 1960 the debate is limited to the matching of the credentials of candidates and parties to meet the challenge of the future in a reasonably responsible and responsive manner.

Defense costs

Public opinion polls taken during the past 14 years have shown that important segments of both parties have disapproved the bipartisan foreign assistance programs with some differences in motivation. These different points of view are reflected only dimly in the platforms of 1952-60. The competition between the United States and the Soviet Union for influence, power, prestige and priority in the world has caused the budget to reach extraordinary heights. Appropriations for defense, military and technical aid, and related objects have attained astronomical proportions. In general, both parties have agreed on what our official action should be; they have disagreed only with respect to methods,



amount of appropriation and administration. In 1950, one faction of the Republican party, led by Senator Taft, vigorously opposed American support to the United Nations police action in Korea. Later, in the case of the U-2 affair, some leading Democrats criticized President Eisenhower's actions. In the main, we have had a bipartisan foreign policy.

If peace and security are important issues, a third is the domestic one of *economic stability*. Many of the forces which now dominate the economic and technological structure of the United States had their origin decades ago. But it was after World

War II that big government, big industry, big labor, and big research and development combined to create the most elaborate and massive system of production the world has ever seen. Since about 1870, gross national product has grown approximately at the rate of 3.5 per cent a year. In 1958, the GNP was reported at \$436.7 billion. The Democratic party has urged that measures be taken to increase the rate of growth to five per cent, and the Republican party (Nixon speaking) questions both the desirability and the possibility of doing this. The chances of there being any national resolution of this issue in an election campaign are nil.

Economists do not agree on the extent to which inflation is constructive or destructive, what fiscal measures should be adopted to regulate the flow of capital, whether and to what extent "full employment" should be established, and what areas of investment and development should be reserved to private enterprise. In the Employment Act of 1946, very broad powers of doing anything necessary to control the economy of the country were assumed by the government. A Council of Economic Advisers in the Office of the President was established, and Congress was given a Committee on the Economic Report. This system was designed to remove the development of economic policy from too much dependence on parties and involvement in partisan conflicts. It is thought that since 1953 its full potentialities have not been realized. Although some Senators are exceptionally well equipped to debate matters of economic policy, neither Congress nor the Presidency seems capable of handling issues of such complexity as economic stability.

Parties play safe

Since 1946, Congress has passed laws (Taft-Hartley) in the labor-management field, debated issues and conducted investigations. Although labor is strong in some quarters, it has been weakened by defections, embarrassed by investigations into its internal structure, hurt by steadily mounting unemployment and threatened by technological invention, such as automatic computers. Moreover, Washington has de-

volved control over important segments of labor upon the states (right-to-work laws). Although policy with regard to labor is inseparable from general economic policy, the parties will continue to wrestle with labor policy. Sooner or later, an answer will have to be found in the context of a new, dynamic and technological society.

With increasing unemployment, due chiefly to technological causes, labor has difficulty in associating any



benefits it has with the Republican party. In some areas, labor has even more difficulty in finding cause for gratitude in the actions of the Democratic Congress. The white-collar class has generally applauded the wonders of automation and technological change, and the workers have been apprehensive about them. Neither party has had the temerity to take a position on automation. Leaders in both parties have been diverted from this task by the more exciting prospects of missile weaponry and space exploration. The force is here, but its impact has not yet been felt by the politicians.

Agrarian problems began to engross the interest of the parties over 80 years ago. Since World War II, falling prices, offset in some cases by generous parity payments, rising prices, the progressive elimination of the small farmer, mechanization of production, terrific overproduction and subjection of rural interests to those of the processors, have made the agriculture problem one of the most serious confronting the nation. Politicians have debated the varying merits of the parity plan, the Brannan plan, the Benson plan, the Soil Bank plan. Actually, the rural situation calls for a comprehensive, scientific examination of the type once projected by Theodore Roosevelt.

Both parties have taken stands on

housing, urban renewal, and other features of the problem of urbanization and metropolitan management. On the larger question of planning, President Eisenhower has inclined to a policy of devolution and management decentralization, and Sen. Clark (D.-Pa.) to a program of national systematic intervention. All those who dwell in cities and metropolitan communities are vitally concerned about this question. The parties, as such, have not yet reacted.

The net result of social, economic and technological change on political loyalties, party programs and choice of leaders has been to confirm the division of the American voters into two parties, reasonably well organized and coherent, but differing from each other only in orders of preference and priority; and a third force, consisting of persons who vote only when the candidates of one party seem to them to be above party. Max Weber found this to be a universal phenomenon. With us, it happens in critical times when the sheer complexity of public problems is more than we can comprehend in traditional democratic terms.

Influences at work

Finally, we may conclude that, within limits fixed partly by previous record and images of them formed in the public mind, the political parties, by their campaign tactics and techniques, will influence the result by (1) retaining supporters of lukewarm loyalty; (2) attempting to entice some members of the opposition away from their candidates and; (3) trying to activate the third force — which consists of independents, stay-at-homes and indifferents. This third force normally consists of persons who are favorably disposed to the Republican party: women, first-time voters, older persons, Protestants, those in the high-income classes, white-collar workers and suburbanites.

Issues, according to sociologists, have a momentum of their own. If enough of those on which the Democratic party has taken a popular stand pass through the "gateway" of political relevance, the Democratic party may find a more favorable response than the Republican party from the independents and others who cast the deciding vote. ■

How Much Lag Between Insight and Application?

by **BERT F. HOSELITZ**

■ SOME 40 YEARS AGO the American sociologist, William F. Ogburn, introduced the expression "cultural lag" into the vocabulary of social science. He defined "cultural lag" as the time interval between a change in the material conditions of a society and the accommodation of the adoptive culture to that change in its laws, rules of conduct and other forms of behavior. In describing concretely what situations he had in mind, Ogburn used a number of examples drawn from the field of economics.

For example, there was a need for legislation providing for workman's compensation in the U.S. some 40 to 50 years before such legislation was actually enacted. The material environment in this case machine production and the greater dangers of factory work—as compared with the simple craftsman's shop of the earlier period—demanded new rules which only came about after a "cultural lag" of several decades.

Other examples cited by Ogburn were the antiquated system of property taxes in most states, the sluggishness of developments relating to trade legislation, the serious lag in legislation pertaining to the rights and privileges of the Indian population of the U.S. and a belated concern over conservation of natural resources. In all these instances Ogburn was concerned with the delay of action by legislators or policy makers in cases in which the material conditions of the environment had changed to such an extent as to make the old practices and rules ineffective or ill-advised.

This concept of cultural lag has also been used to explain the frequency with which ideas taken from an old and outdated context are applied to deal with new situations.

First of a series of articles dealing with the lag between the way we think our economy behaves and the way it actually does behave.

Thus the blame for France's early defeat in World War II has been ascribed to French generals who devised a strategy which would have been admirable for the trench warfare of World War I but which did not work against the highly mobile, tank-equipped German army of 1940. Similarly, the material conditions of the post-World War I world made American isolationism an anachronistic policy. Yet the outmoded argument that the U.S. should remain aloof from entangling alliances carried the day and the U.S. Senate in 1919 rejected membership in the League of Nations.

In the economic realm, the practice of implementing policies on the basis of outdated theories goes back as far as we have pertinent records. Indeed, many of the classic statements of economic wisdom were considered the outpouring of radical and highly unorthodox innovators when first published. In 1620, the English mercantilist Thomas Mun exposed the error in the old idea of "bullionism" which taught that the amount of precious metals in a country could be augmented if exports exceeded imports in each single transaction, and if taking precious metals out of the country was prohibited. Mun showed that even though the East India Co. might export gold and silver of a certain quantity to India, it would gain even more gold and silver for England through the resale in Europe of the commodities which it brought back. But this view did not prevail until after many struggles and much argument. The permis-

sion to export precious metals was granted with some delay, but it is still doubtful whether this outcome is due to Mun's superior economics or to the political influence of the East India Co.

In the 1750s the French physiocrats proposed that the highly restrictive policies of the old regime needed change and that the newly developing productive forces of France would develop only in a climate of more liberal policies. Their proposals were disregarded, their teachings were ridiculed, and one of their members, Mirabeau, Sr., whose proposals on taxation appeared more extreme than the rest, was threatened with imprisonment in the Bastille. It was only through the influence of powerful friends at the royal court that his sentence was altered to imprisonment in his home. Turgot, who as Minister of Finance wanted to implement some of the physiocratic proposals, was dismissed from



office, and the antiquated, but time-honored, economic policies which had lost touch with economic reality were continued.

Finally, when in the late 1780s some of the proposed reforms were hesitatingly implemented, it was too

late. The *ancien régime* was doomed; it was swallowed up in the great Revolution of 1789. Economic mismanagement was not, of course, the only cause of the French Revolution, but a perusal of the complaints which poured into Paris in 1789 and 1790 will show that it played an important role.

The 19th and 20th centuries also present many instances of lags between the elaboration of new principles of economic policy and their application. The doctrine of free trade was elaborated by Adam Smith in 1776. It was strengthened by additional contributions of various economists, notably David Ricardo, in the first two decades of the 19th century. Yet it was not adopted as a policy in Great Britain until the 1840s and was never adopted elsewhere on more than a cursory level.

Ideas on taxation

The notion that "since taxes are paid out of income, the most appropriate form of collecting them is by means of an income tax" was developed before the middle of the 19th century by John Stuart Mill among others. But, it was not until the last years of the 19th century that income taxes, especially graduated income taxes, were introduced in most European countries. In the U.S. their adoption was delayed until 1912.

Finally, there have been serious lags in the adoption of economic policies designed to combat depressions. The traditional viewpoint that applied the same rules to the public household as to the household of private persons was discarded only with difficulty. When a depression set in and tax receipts declined, because income and economic activity in general fell, public expenditures were cut so as to balance the budget on a lower level. But this depressed the level of income and economic activity even more. The use of fiscal policy, the purposive imbalance between government expenditures and tax collections as a measure of stabilizing cyclical fluctuations, is only a discovery of the last 30 years.

John Maynard Keynes, who, more than any other man, is responsible for having developed the new view, wrote playwright George Bernard Shaw in 1935: "I believe myself to be

writing a book on economic theory which will largely revolutionize—not, I suppose, at once, but in the course of the next 10 years—the way the world thinks about economic problems. When my new theory has been duly assimilated and mixed with politics and feelings and passions, I can't predict what the final upshot will be in its effect on action and affairs. But there will be a great change, and, in particular, the Ricardian foundations of Marxism will be knocked away."

Roy Harrod, who cites this letter in his biography of Keynes, added that "more than 10 years have passed. The influence of the book has been great. But its effect on feelings and passions has inevitably been somewhat different from what might have been anticipated in 1935." At that time the doctrine called for expansion and for bold and daring expenditures on the many things that would improve the lot of people. But then came the war. Since its outbreak Keynesian doctrines have pointed in the opposite direction, namely, toward economy and a cutting down of all nonessential investment programs.

Consequently, Keynesian doctrine has not yet had to deal with challenges of sufficient magnitude to test its applicability in a decisive manner. We may hope that in the 25 years since it was first made public, enough of it has been absorbed so that if a serious depression actually threatened it would be put to the test. But we cannot be sure; timidity may again prevail over boldness.

These examples show that there has existed and probably still exists a lag of roughly one generation between the elaboration of new theories in economics and their actual application in practice. An interesting further point is the time lapse between a change in the social environment and the first emergence of a theory to explain that change. This time lapse greatly lengthens the *total* lag between changing conditions and the *application* of economic theories to suit them.

There is some reason to believe that a narrowing, at least, of the gap between the first formulation of new insights and their general application is possible. Keynes, in the passage cited earlier, speaks of a gap of per-

haps 10 years. The famous German economist, Friedrich List, inventor of the "infant industry protection concept," who wrote some 100 years earlier, hoped that certain of his ideas would penetrate the general consciousness of policy makers in a generation. This difference in expectations may be a result of the personal temperament of the two writers, but it may also reflect a decrease in the time it takes for new thoughts to gain acceptance. Perhaps the general temper of conservatism has declined. Let us not forget that when the automobile was first invented reputable scholars argued that such a machine could not work. Today if someone announced that he had invented a rocket which can fly to another galaxy he would be believed by almost anyone.

Economics and politics

However, there is a somewhat more rational explanation for the possible narrowing of the gap between the formulation of a new idea in economics and its adoption by politicians. Politicians are better informed about economic matters. Some 100 years ago it was an accident if an economically trained person found a place in our national or state legislatures. Today we have several economists in the Senate, and some Senators and Representatives who have no formal training in economics have learned a good deal of it on their own. Moreover, the Executive branch is shot through with new administrative organs composed primarily of economists. For example, the Bureau of the Budget, or the President's Council of Economic Advisers are creations of the recent past.

The greater influence of economists in councils of state, which developed first in the U.S., has taken place elsewhere. Even in underdeveloped countries the services of economists are gradually becoming more highly appreciated than those of lawyers and literary men. In modern India the voice of the Planning Commission, a body made up largely of economists, is louder and more penetrating than that of many ministries, and over-all policy is more closely oriented toward the meeting of economic goals than many political ones.

The greater concern about eco-

economic problems is a development of the last few generations. Economic welfare as an object of government policy is increasingly being elevated to a place of importance, commensurate with political order and national security. In addition, the over-all rate of economic growth is becoming a matter of concern of policy makers. The present election campaign is the first in the history of the United States in which the rate of economic growth was made an important issue.

But in spite of this heightened interest in economic policy and economic goals, it is unlikely that the gap between the invention of a new theory and its application will ever disappear. In part this is due to the fact that, however much policy makers may be interested in economics, they were brought up at a time when older theories and policies prevailed. After all, what is at stake is not an interest in economics as such, but the adoption of measures which may sometimes appear contrary to accepted doctrines and time-honored practices.

But the reluctance to adopt new policies is also due to the extremism and radicalism with which new policies are advocated. The contemporaries of Marx, for example, regarded his program with horror. This attitude was provoked only partly because of its radicalism; partly it was provoked by the very dogmatic gesture with which it was promulgated. The late Joseph H. Schumpeter very wisely said of such reformers that they "illustrate to perfection the type of economist who will, I fear, never die out and who will forever discredit economics in the eyes of men whose approval is worth having. This is the type that says: here is the patent medicine that will cure all ills . . . the only thing . . . for humanity is to swallow it."

Resistance factors

One can understand why someone who believes he has made a new discovery will tend to exaggerate its worth. One can also understand that the more radically the new proposal deviates from accepted practice, the more hotly will it be supported by its advocates. But, except perhaps in genuine crisis situations, dogmatism and an extreme persistence in the

rightness of a new approach may be the worst policy. For even those who would give the new ideas a try are repelled by the extremism and the extravagance of its advocates.

Finally, one must not forget that the implementation of a new economic policy may impinge in new



and unforeseen ways on various vested interests. For example, a policy which combats deflation may hurt creditors; a policy which attempts to maintain stability by making money scarce and borrowing expensive will affect adversely entrepreneurs in the riskier lines of business. Thus, the political decision maker often faces a dilemma.

Sometimes a new economic policy will affect widely held goals and values. In this case it is easy to understand why legislators and political leaders, who always have an eye on their future electoral chances, may hesitate to introduce a policy which from the standpoint of general welfare may be highly advisable. The rigorous maintenance of tariffs and other foreign trade restrictions and subsidies is a case in point. Economists have almost unanimously pointed to the fact that—other things being equal—tariffs affect the level of a country's income adversely, because they are likely to shift resources from more to less productive uses. Just as consistently, politicians have disregarded the advice of economists and have voted for various protective measures; there are few fields in which party sentiment and even ideology have given way so universally to the weight of local interests. Here is a conflict of values—if it may be called that—which is responsible for a lag between theory and its imple-

mentation lasting more than 100 years.

If the time gap between the invention of a new theory and its application can often be traced to the conflict between economic and political goals, what about those cases in which new theories call forth changed policies by private persons, notably businessmen? The record here is far from clear. In some cases we may observe a long delay in making use of organizational innovations in business.

Take, for example, the use of the joint stock company as a device to combine large amounts of capital for industrial investment. The earliest joint stock companies specialized in overseas trade. Some of them, like the East India Co., were vast undertakings which performed not only economic, but also governmental functions. But the joint stock device was known for more than two centuries before it became generally applied to industry. There were canal companies, railway companies and trading companies; but in iron and steel, in mining and in other large-scale industries, partnerships remained the rule. True, legislation was required to get a stock company under way. But there was a strange absence of pressure by industrialists to make joint stock company legislation applicable to industry. Only when all other forms of association proved insufficient for capital formation did enough pressure develop to legalize industrial joint stock companies.

Slow adoption

There is also some evidence that until fairly recently businessmen shunned the introduction of technical innovations, which ultimately turned out to be highly profitable. Dr. W. Paul Strassman recently published a book in which he traced technological innovation in a number of 19th century American industries. Strassman comes to the following conclusion:

"Throughout this study there has been an emphasis on the cautiousness of innovators. . . . Caution was of some importance in reducing customer risks. A cautious entrepreneur would develop his novel process or product on the smallest possible scale, among other reasons to see if

inertia and prejudice were insurmountable. . . . Hence the first machines, furnaces and power transmission lines were deliberately of less than optimum scale; and new motors and machine tools were not produced on an efficient mass-production basis until well after sales justified such methods."

In brief, it is probable that there often occurred extensive lags between the perfection of a technical innovation and its general introduction by businessmen.

With the growth of business enterprises the control of such enterprises passed into the hands of men without technical training. Thorstein Veblen has maintained that, as a consequence, the lag between the discovery of technical innovations and their application became longer. Veblen reasoned that the new masters of business were not interested in making profits by cheapening or improving the goods they sold, but by financial manipulations, by exploitation of monopoly power or by high-pressure salesmanship.

Veblen discounted

But all evidence tends to disprove Veblen's view. Larger business units made possible the specialization of managerial functions, and with specialization each function was exercised more proficiently. In fact, business operations as a whole, including the introduction of innovations, which previously had been the result of what Schumpeter called the vision of entrepreneurs, became fully routinized. A few decades ago the first adoption of a new invention by a business enterprise was a rare and irregular occurrence, carried out with uncertainty and mainly because of the unusual profits this action promised. Today the major enterprises maintain regular departments charged with the planned development of new inventions. Research and Development (R&D) departments have become normal appendages of all larger firms and the standards of cost and profit-and-loss accounting applied to them are similar to those applied to the regular production departments of a company.

In brief, the development of scientific management, supported by high-speed computers and mechanical brains, has reduced uncertainty and

made business operations more highly predictable; thus, the gap between innovations and their practical application is likely to be reduced greatly. Whatever may be the time gap which exists and will continue to exist between the first formulation and the actual implementation of generalized economic ideas, such as the theories of Keynes, the gap between organizational or technological innovations and their adoption by business will become shorter.

Planned growth

Not the least important factor in this process is the increased *calculability* of the net effect of innovations in terms of dollars and cents. This means that it has become possible to achieve in a free enterprise economy what previously was believed to be possible only in a fully planned economy: the implementation of a predetermined rate of economic growth. If we can calculate what increases in production a given outlay for R&D will bring about (within a relatively narrow range of error), we can achieve a planned rate of growth.

If this result is to be attained within the context of private enterprise, it will become necessary to develop a system of rewards and incentives which actually will bring forth R&D expenditures of the desired magnitude. It is as yet somewhat premature to indicate these policies in detail, but one may safely predict that the gap between the discovery of the optimum policies and their actual implementation will be subject to a time gap of some duration, for here again we deal with a decision which is basically political in nature.

The basic idea underlying this discussion can now briefly be summarized. Economics, because of its theoretical maturity and because of the measurability of many of its concepts, is developing in a direction in which the outcome of alternative policy measures can be predicted with a fair degree of probability. Hence in all areas of human action in which economic decisions can be made in "pure form"—i.e., without associated political, social or psychological considerations—the likely effect of these decisions can be stated with a good deal of certainty. It is only the admixture of other motives

which makes the outcome less certain and, for this reason, tends to delay decisive action.

In the field of economic decisions on the national level, these political admixtures are always present. They are a necessary result of the democratic process. In the field of business they are sometimes absent, but even here many decisions are not made on purely economic grounds. In "pure" economic theory the firm maximizes net profit; in the "pure" theory of Sombart, the business leaders are rational decision-making machines; but in real life business decisions are often subject to political and related considerations. It may be the "politics" of the firm or industry; it may be rivalry between different officers of a company; it may be the struggle for control within an enterprise, or the shadow of a firm's tradition, which influences decisions in a given enterprise. These "admixtures," similar to the admixture of party political considerations of legislators, may interfere with the straightforward calculability of the results of a given innovation. They may—even before the question of its calculability is asked—place in jeopardy the adoption of the innovation.

Always a lag

In these instances of conflicting objectives the logic of the situation will ultimately work itself out. It may at times lead to a delayed adoption of the innovation or to its complete rejection, only to be revived a long time later. But under any circumstances it will have the effect that, on the average, the lag between innovations and their adoptions will remain. And although the improvement in communications, the plethora of complex business machines, and the institution of regularized R&D departments may greatly reduce the gap, wherever politics or questions of power and prestige remain, it cannot be removed completely.

Perhaps the forecast made in this essay is utopian. But this writer believes strongly that in the future we will do more than implement the economic ideas of the previous generations—as we apparently did in the past. We will at worst implement in our old age the economic ideas of our youth. ■

Employment, Growth and Price Levels

by ROBERT C. TURNER

■ ONE OF THE important governmental developments of the past decade has been the emergence of the Joint Economic Committee of Congress and its staff as a leading analyst and interpreter of economic events. It is clear that it was the original intent of the framers of the Employment Act of 1946 that the Joint Economic Committee should be not an *originator* of economic ideas and proposals, but a critical *reviewer* of the economic recommendations of the President and his Council of Economic Advisers.

In recent years, however, the Joint Economic Committee has taken the initiative in engaging in economic analysis, perhaps partly because it has been under the control of the party in opposition to the Administration. Repeatedly charging that the President's Council of Economic Advisers has been timid in its analytical approach and has glossed over or ignored some unpleasant, emerging economic problems, the Joint Economic Committee has undertaken to provide more daring thought.

The Staff Report on Employment, Growth and Price Levels is the most recent effort in this direction to date. As the title indicates, this 488-page book is a report of the *staff* of the Joint Economic Committee, not the Committee itself.¹ Moreover, it is a report not of the small, regular staff of the Committee, but largely of a special staff assembled for this specific job. The Committee employed Dr. Otto Eckstein, a young Harvard economist, as technical director for the staff. Then it employed a number of other economists to do a series of 23 "study papers" totaling some 1,300 pages of fine type. Eckstein, with the help of still another group of economists (including the regular

Abstracted from the 1,300-page report entitled "Staff Report on Employment Growth and Price Levels," prepared for consideration by the Joint Economic Committee, Congress of the United States.

Abstracts of significant, original research are being prepared by leading scholars for publication in CHALLENGE at frequent intervals. These abstracts are presented as a public service in cooperation with the Joint Council on Economic Education.

staff of the Committee), welded these study papers into an integrated, policy-oriented document.

The report addresses itself to three major, general economic problems succinctly set forth in the opening paragraph:

"The tempo of the American economy slowed in the last six years. Simultaneously, prices rose. And although the economy remained free of severe depression, two recessions occurred which caused considerable unemployment" (p. 1).

In addition to these basic problems the report discusses three more specialized ones: the concentration of unemployment, underemployment and poverty in certain geographic areas and industries, notably agriculture; the concentration of economic power in business and labor organizations; and the current balance of international payments problem. The chapter on "The Problems of American Agriculture" is refreshingly frank for a public document. The last chapter, "U.S. Position in the World Economy," is, for its length, one of the best statements available on our current international trade position.

Yet the discussion of all these topics is peripheral to the central theme of the report. This abstract, therefore, will focus on the three general and basically important problems to which most of the

Committee staff report is devoted.

National economic growth is defined as the expansion of a nation's capability to produce the goods and services its people want. The authors estimate that, over the past 120 years, real gross national product (expressed in constant dollars) has increased at an average rate of 3.66 per cent a year. Much of this increase, especially in the first half of this 120-year period, was the product of population increase. However, per capita GNP, again in constant dollars, increased only about 1.64 per cent a year.

The rate of increase in real GNP has varied greatly from one period of time to another. The depression years from 1929 to 1932, for example, witnessed virtually no net increase at all. From 1937 to 1945, however, real GNP increased by 7.2 per cent a year. Less than half of the long-term increase in real output has resulted from increases in the labor force, plus increases in the physical quantity of capital used in production. More than half—in recent years considerably more than half—is accounted for by improvements in the *quality* of the labor force, of capital and of methods of production. Probably the main influence, however, has been technological research and development, coupled with imaginative innovation in both production and distribution.

One relatively important but often overlooked source of productivity increase is the gradual shift of workers from low to high productivity industries, chiefly from agriculture to manufacturing. Fewer gains can be expected from this source in the future. In recent years, the exodus from agriculture has slowed down, while employment in manufacturing, a high productivity industry, has been declining. Most of the gain in employment in recent years has come in the service industries, par-

¹The Committee subsequently issued its own report, together with a report by the minority on the Committee.

ticularly some of the low productivity components of the service industries category.

"The single most important requirement for successful expansion of the economy is the growth of demand at a rate equal to the expansion of productive capacity. Other efforts to raise output will be frustrated if demand is not growing at the same rate" (p. 53). Demand pressure is important to growth not only in the permissive sense of providing the market for potential output. It is also important because strong demand (1) speeds up the rise in labor productivity; (2) stimulates capital formation; (3) slows down the shrinkage in the workweek and (4) tends to reduce the use of restrictive practices such as featherbedding and restraints on business competition.

Prospects for growth

Assuming adequate demand, the authors estimate that an average annual growth rate of from 3.4 to 4.5 per cent² is feasible between 1959 and 1975. The higher estimate assumes "that our economic affairs are managed in such a way that a high level of prosperity is maintained" (p. 7). It assumes unemployment averaging only three per cent of the labor force. The lower estimate assumes frequent interruptions to growth by recessions and unemployment averaging five per cent of the labor force. A median figure of 3.9 per cent is suggested as being conservatively optimistic.

"None of these projections is based on the assumption of a radical change in our economic way of life or economic circumstances. Thus, no major depression, like that in the 1930s, is assumed. Nor is it anywhere assumed that the government imposes an elaborate system of controls designed to force a certain rate of saving or pattern of consumption" (p. 8). The median projected rate of growth is somewhat higher than the long-run average for the U.S. and considerably higher than the 1953-59 rate.

From 1953 to 1959, the annual rate of increase was only 2.5 per

cent.³ Moreover, this slowdown occurred in spite of the fact that the annual rate of growth in the civilian labor force increased from 1.46 to 1.55 per cent. The slowdown can be attributed to rising unemployment and a sharp drop in the rate of increase in output per employed person. Why, ask the authors, have these events occurred?

A part of the answer is to be found in a shift in the *composition* of demand, particularly of consumer demand. While consumer expenditures for services have continued to grow, the rise in expenditures for goods has slowed considerably, and expenditures for certain types of goods, notably houses and automobiles, have actually declined.

The abrupt change in consumer spending patterns since 1955 cannot be wholly explained in terms of the theory that as incomes rise, consumers tend to spend an increasing portion of their incomes on services. In the main, the authors attribute this shift in consumer demand from goods to services to (1) the low birth rate of the 1930s, which resulted in a shrinkage in the marriageable-age population during the period in question; but chiefly to (2) a slowed growth in consumer incomes.

But why the slowdown in consumer incomes? The blame, conclude the authors, "must fall primarily upon the behavior of the federal government. Whereas private industry was making large investments during 1956 and 1957 in order to meet high anticipated levels of output, these anticipations were overly optimistic primarily because the government stepped too hard on the fiscal and monetary brakes" (p. 95).

The government's restrictive fiscal and monetary policies were aimed at reducing inflation. But the well-advertised inflation of recent years needs to be scrutinized carefully.

This inflation is not a simple phenomenon to be explained by any neat, mechanical formula. The character of inflation has varied considerably from one period of time to another. The abrupt upward shifts in the price level in 1946-48, and in the seven months immediately fol-

lowing the Korean invasion, can probably be adequately explained within the framework of traditional economics. Not so, however, the "creeping inflation" of the post-Korea period which makes up about one-quarter of the post-World War II inflation. Moreover, there have been marked differences in price experience in the various sectors of the economy. Indeed, the inflation since 1955 has been concentrated largely in certain consumer services (chiefly medical care, personal care and rent), in steel and machinery, in government services and in construction.

"The inflation in services has been the result of several independent developments. The rise in the price of medical care is attributable to a great increase in demand without an equivalent rise in supply. In the case of unskilled services, the primary cause has been a low rate of increase in productivity combined with a rise in wage rates somewhat less than the rise in manufacturing" (p. 159).

In the case of steel, the dominant factors were "high and rising profits and exceptional increases in wage and fringe benefits, both of which were related to strong market power in the labor and product markets, initiated in the context of a favorable state of demand. In the case of machinery, the dominant underlying factor was the pressure of excess demand on productive capacity" (p. 159).

In other manufacturing industries, price increases resulted from a combination of oligopoly power in product markets and rigidity in costs, notably wage costs, during recessions. Rising prices in the construction industry are attributed largely to a combination of strong demand and the exercise of market power by strong unions.

Cost of government

The increase in prices of government services (not included in the Consumer Price Index or the Wholesale Price Index, but included in the GNP deflator) is partly, perhaps largely, a statistical illusion. "The price index which is applied to the government sector in constructing the GNP deflator is essentially a measure of changes in the cost of

²The percentages are calculated from 1959 potential output. Calculated from estimated actual 1959 output, the annual rates of increase would range between 3.8 and 4.9 per cent.

³Second quarter 1953 to second quarter 1959 —the comparison made in the report. The average annual rate of increase from the year 1953 to the year 1959 was about 2.4 per cent.

inputs—i.e., in the level of wages and salaries of government employees—rather than a measure of changes in the price of government services rendered. In other words, the government price index does not take into account any rise in productivity of government employees” (p. 109).

The authors find no consistent relationship between price increases and union strength. Rather—this is an important generalization—wage costs in manufacturing have risen most where a high level of profits and a high degree of market power were present. This generalization is particularly applicable to the automobile and steel industries which have tended to be “pattern setters” for other industries. It does not apply, however, to coal mining and railroads which have not enjoyed high profit levels. In these industries, “union power was a dominant factor” in increasing wage costs (p. 160).

It is clear that neither the traditional “demand-pull” type of analysis nor the more recent “cost-push” or “administered price” approach, is adequate to explain the diversity of inflationary forces at work in our economy in recent years. A third approach to explaining some recent inflation, originated by Prof. Charles L. Schultze in Study Paper No. 1, suggests that an upward shift in prices can result from a significant and rapid shift in demand from one sector of the economy to another, even though there is no change in aggregate demand. “A net inflationary movement can result partly because of the immobility of factors of production—which prevents supply from adjusting quickly to the shifts in demand—but more importantly because of the lack of downward flexibility of

prices and wages in those sectors in which demand has declined” (p. 116).

Inflation that arises from such a diversity of causes is difficult to control, particularly in view of the fact that the only available weapons are demand-restraining ones. The principal weapon of recent years has been the monetary policy.

Leash on money supply

From 1953 to 1959, monetary policy has focused on control of the money supply. Growth in the money supply has been held to about 1.9 per cent a year (less than even our reduced rate of growth in real GNP,) with a roughly countercyclical pattern. “In determining specific policy actions, particular, though not exclusive, emphasis was placed on price level stability” (p. 22).

This restraint on the money supply has had an effect on aggregate demand, though it is a delayed effect and one that has been diluted by offsetting changes in the income velocity of money. Moreover, the impact has varied greatly from one sector of the economy to another. The main effect has been on residential construction, partly because of the interest rate ceilings on FHA-insured and VA-guaranteed mortgages. These ceilings caused funds to flow into or out of the mortgage market, depending on the level of interest rates on competitive investments.

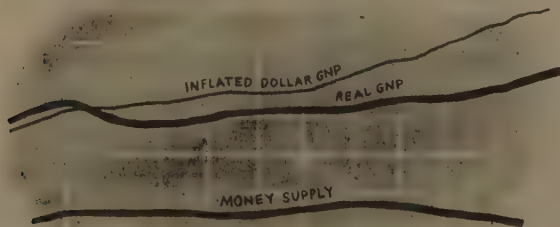
To a less definitive degree, changes in monetary policy have affected the construction program of state and local governments, the capital expenditures of smaller businesses and, to a probably minor degree, the capital expenditures of certain larger businesses (such as electric power companies) where capital costs are

typically a substantial portion of total costs.

Because of this differential impact, and because of the rather long lags involved — lags both of recognition and of economic effect — monetary policy has been “of limited effectiveness as a countercyclical device.” Moreover, since 1953, there has been very little coincidence between the sources of inflationary pressure and the impact of monetary policy. “On the one hand, inflation is due to the instability of output of the economy, the exercise of market power, excess demands in the capital goods industries — to various long-run imbalances between supply and demand in the services sector,” and the downward rigidities in the cost and price structure. “On the other hand, monetary policy primarily raises and lowers the volume of residential construction” (p. 24).

Monetary policy has not, however, been totally ineffective. Even though the immediate impact of tight money is on a rather narrow segment of the economy, this segment is an important source of income. Income generation, and therefore aggregate demand, has been restrained. To the extent that this restraint on demand falls on flexible price sectors of the economy, such as agriculture, prices will fall. But to the extent that the decline in demand falls on rigid price sectors, prices will not fall, but employment and output will decline. In the contemporary institutional setting of our economy, the principal effect of tight money is not to control inflation, but to create unemployment and underutilization of capacity, and to slow down the rate of economic growth.

The authors conclude that, while the recent record of monetary policy has been poor, the record of fiscal policy has been worse. Admittedly, the nondiscretionary component of fiscal policy—the “automatic stabilizers”—have functioned rather well. (“Automatic stabilizers” are devices that automatically pump money into the economy when there is a recession. Unemployment compensation is an outstanding example.) These devices can take most of the credit for mitigating the severity of recessions and dampening the booms—indeed for making a serious depression of the 1930s’ variety extremely unlikely.



But their effect, in a recession, is only to *slow down* the decline; they provide no upward stimulus.

The record of the potentially much larger, discretionary component of fiscal policy has been "disappointing." On only one occasion since World War II has a change in tax revenues been consciously used for countercyclical purposes. This was immediately after the Korean invasion.⁴ On several occasions expenditures were increased to combat recession, but their magnitude was inconsequential and the effects were felt long after the recovery was under way.

Moreover, the effectiveness of fiscal policy has deteriorated over time. The size of the surpluses in good times, and the size of the deficits in bad times, relative to GNP, have declined. Thus, fiscal policy has become progressively less effective. Indeed, the authors conclude that, on the whole, fiscal policy has been a positively *destabilizing* influence. This is true chiefly because substantial and sudden changes in defense procurement were unmatched by offsetting changes in other expenditures or in taxes.⁵

The authors conclude that inducing major changes in the levels of *total* revenues and expenditures is not a suitable means of dealing with inflation of the 1953-59 variety. "Presumably, if the objective sought is to curb inflationary price pressures at their source, *selective* tax increases and/or expenditure cuts should be aimed specifically at the sectors in which demand increases are likely to give rise to upward price movements. To do so, however, would limit the process of dynamic adjustment through relative price changes" (p. 217). Moreover, the political feasibility of using fiscal policy in this fashion is nil.

This economic diagnosis would ap-

pear to be a dismal one. Inflation, though caused at various times by various factors, arises chiefly on the cost side of the economic equation. Moreover, in most sectors of the economy, these costs are highly resistant to reduction and the forces which make for this resistance, such as labor unions and large and powerful business firms, not to mention agricultural price supports and "fair trade" laws, are pretty solidly imbedded into the structure of the contemporary economy. Our two public policy weapons for controlling inflation, fiscal and monetary policy, are largely ineffective, and any serious attempt to use them effectively results primarily in an increase in unemployment and a slowdown in economic growth.

Recommendations

The authors are not content, however, to pose this dilemma. They offer a considerable list of recommendations to improve matters. The more important of these are:

- The perverse stabilizing effects of the federal budget should be eliminated by prompt compensatory changes in either taxes or expenditures to offset necessary changes in defense expenditures.

- The ceiling on the national debt should be repealed.

- The interest ceiling on the national debt should be removed.

- In general, fiscal policy should be used more and monetary policy less.

- Within the fiscal policy area, more reliance should be placed on changes in tax rates and less on changes in expenditures.

- Consumer credit controls should be enacted.

- The Federal Reserve should abandon the "bills only" doctrine and instead take responsibility for influencing the availability of credit in each of the several short- and long-term markets.

- The interest ceilings on FHA and VA mortgages should either be deliberately manipulated to achieve desired results in the residential construction area or they should be removed and replaced by other selective credit controls.

- More vigorous antitrust actions should be taken to promote competition. (The authors recognize that

not much can be expected here.)

- Tariffs and import quotas should be manipulated to increase foreign competition in areas where there are concentrations of economic power, such as steel and automobiles.

- An annual labor-management conference should be held. (Just what this conference is supposed to do, other than discuss wages, prices and profits, is not made clear.)

- Some sort of direct governmental participation in key price and wage decisions should be invoked. (Direct price and wage controls are not recommended.) The authors suggest several possibilities:

- (a) Establishing a government study group to give publicity to price and wage changes.

- (b) Establishing a similar study group to give advance notice of proposed price or wage increases.

- (c) Endowing a government agency with power to suspend such increases pending public hearings.

- The supply of certain services which have contributed significantly to inflationary pressures—most notably, medical services, rental housing and personal care—should be increased.

- Inflation should be combatted by efforts to speed up the increase in labor productivity. This can be achieved by:

- (a) Maintaining a high level of prosperity through assuring adequate aggregate demand.

- (b) Improving the quality of the labor force through better education.

- (c) Accelerating the introduction of new technology by developing new institutional methods of distributing equitably the social costs (notably unemployment) of technological change.

- (d) Expanding technological research and development in the civilian area as well as the military, and in basic as well as applied research.

- (e) Terminating or reducing government programs which subsidize uneconomical use of resources, especially (but not exclusively) in agriculture. ■

⁴The tax cuts of 1948 and 1954 are labeled as fortuitous, not exercises of good fiscal judgment.

⁵The authors emphasize one point that is often overlooked by economic analysts. This is that the economic impact of a change in defense expenditures typically is felt long before the change is reflected in the expenditures figures. A sudden increase or decrease in orders for military equipment sets into motion an immediate chain reaction of order placement or cancellation for components and raw materials, and hiring or firing of technicians and labor. But expenditure data may not change until six months to a year later.



The Strategy of Desire. Ernest Dichter. 314 pp. New York: Doubleday. \$3.95.

• Whether desire really has a strategy is questionable. What is not questionable is that Dichter and his fellow motivational researchers are paid substantial sums to devise strategies that will make human desires and their clients' products coincide in sales. Some critics, notably Vance Packard in *The Hidden Persuaders*, which Dichter attempts to answer, have attacked psychological marketing techniques on the grounds that they foster irrational buying habits, encourage fraud and generally debase our culture. Dichter's well-written and interesting defense is moderate and persuasive—up to a point. Buying is never rational; things have always held a symbolic, and often unconscious, significance for us. By bringing these hidden meanings out into the open, our behavior can become more rational.

But the real case against motivation research—apart from the technical question of how valid its findings are, which only a professional psychologist can answer—is not directed against the desirability of discovering the hidden and “irrational” satisfactions we derive from clothes, automobiles or soup. The real issue is: Does the application of such findings allow the advertiser to manipulate the consumer into forgetting such “rational” factors as price and quality? If so, does this not confer more power on organizations that use it than is compatible with free institutions? Dichter does not say.

The Cost of Freedom. Henry C. Wallich. 178 pp. New York: Harper & Bros. \$3.75.

• This is an intelligent and well-written presentation of the case for “modern conservatism.” Wallich, a member of the President's Council of Economic Advisers, faces up to the dilemmas of modern conservatism (or old-fashioned liberalism) with a candor that some of his more complacent colleagues might profitably imitate. A firm believer in our form of modified capitalism, Wallich admits that we must pay a price to maintain free institutions. That price is a measure of economic inequality, the result of competitive incentives.

Wallich also concedes—and here his views diverge sharply from those of the Administration—that the “cost of freedom” may be a more moderate rate of growth than the forced draft methods of the Communists. But he does not regard this as a sound reason for imitating these methods. The battle against communism will not, he believes, be won by matching growth (i.e., GNP) rates—but by using that growth to strengthen free institutions at home and abroad.

In a world peopled by like-minded, humane and rational beings (and a pleasant world that would be), Wallich's argument would be altogether persuasive. But—rational or not—economic performance as measured by GNP has become a potent weapon in the cold war. Economic growth, as John K. Galbraith has suggested, may no longer be a primary objective for relatively affluent societies like ours. But for most of the world it is—and most of the world is matching growth rates. (For a further elaboration of Wallich's views, see his debate with Seymour Harris, page 22.)

The Soul of India. Amaury De Rien-court 402 pp. New York: Harper & Bros. \$6.75.

• This fascinating interpretation of 5,000 years of Indian history heavily censures British colonial policy while crediting the legacy which the British left as being the last hope of the West in Asia. The author strongly believes that the Western position in Asia would be on a much firmer footing today if the British had relinquished control of India after World War I instead of waiting until 1947—when the average Asian saw it as a sign of weakness rather than an act of magnanimity. Despite the understandable antipathy of many Indians toward the West, Nehru presides over one of the few parliamentary democracies among former colonial nations—the rest having lapsed into authoritarianism a few years after independence. The future of this democracy is still tenuous since its strength stems from a thin layer of Western-educated, English-speaking Indians. The threat to these institutions does not, as many Americans believe, only come from the Com-

munists; it also comes from right-wing, anti-Westerners—who long to establish a nationalist theocracy in New Delhi.

The Liberal Hour. John Kenneth Galbraith. 197 pp. Boston: Houghton Mifflin. \$3.50.

• While the title of this volume—a phrase borrowed from Adlai Stevenson—is mildly provocative, it has no real bearing on the contents. *The Liberal Hour* is a group of unrelated essays partly based on a series of lectures the author gave at Grinnell College more than two years ago. Like all of Galbraith's work, these essays are witty and extremely well written. But we have come to expect more than just this from the author of *American Capitalism* and *The Affluent Society*. His piece on Henry Ford purports to debunk the “Ford myth” of infallible judgment and native shrewdness. Aside from his glibness, is Galbraith really telling us anything we did not already know? We have a right to expect far better from a man who, if John Kennedy is elected, may hold an influential position in the next Administration.

The Powerful Consumer: Psychological Studies of the American Economy. George Katona. 264 pp. New York: McGraw-Hill Book Co. \$6.50.

• Acknowledgment of the consumer's role in determining the upswings and downturns of our economy is fairly recent, but a decade has sufficed to make us hypersensitive to consumer attitudes. Katona, economist and psychologist, is aware of the limits of our present ability to understand and predict consumer behavior. Consumer expectations, he warns, are not forecasts but ingredients of forecasts and must be corrected to account for new developments which occur after consumer expectations are measured. What consumers expect to happen (and herein lies the key to predicting their behavior) is determined by what they know about the condition of the economy and the chances that it will change. Interviews with different consumer groups reveal considerable knowledge of the economy's direction—but not at all times by the same group. The author's analysis of different consumer types is based on extensive research conducted under his direction by the Survey Research Center at the University of Michigan. Examining in retrospect consumer attitudes observed by his researchers at critical points in our recent economic history, Katona is able to draw a reasonably complete picture of today's consumer as he reacts to expected and unexpected events.



Economic Affairs / *A Monthly Analysis*

A special supplement to CHALLENGE

October 1, 1960

FAIR TODAY, CLOUDY TOMORROW—that's one way to characterize the current state of business. So far, it appears to be a good year, but a disturbing one. Gross national product is at its all-time high. Consumers continue to spend their record income. Yet there is a sluggishness in business that is causing worry among economists--and among the policy makers they advise.

The statistical indicators have been showing mixed trends throughout the summer. The soft goods industries sustained a healthy pace, while consumer durables moved slowly. At the primary manufacturing level, the most noticeable laggard was steel, operating at about half of capacity.

Unemployment has been continuing at a relatively high 5.5% of the labor force, although employment is up, too. Wholesale prices are steady, retail prices are rising. New incorporations are stable, yet business failures are increasing.

These mixed trends may mean that we have reached the peak of a business cycle. That is what many economists are saying. Third quarter GNP is not likely to show much of an increase, may even decline a bit.

The Federal Reserve has recognized potential trouble ahead and is following an easier money policy. Government officials are considering a step-up in the rate of defense expenditures. Talk about inflation has quieted down.

You can divide GNP into 4 basic types of expenditures. Here's the way they are shaping up at the beginning of the fourth quarter:

Government Spending--up to now, the federal government has kept its budget in balance. If business conditions get bad, expect an increase here--and a deficit in the budget--no matter who wins the elections.

Net Foreign Investment--the difference between what we spend abroad and what foreigners spend here, still running against the U.S. Imports are stable, exports are rising. But, foreigners are selling their securities here and are taking their gold back to Europe. Gold loss in the third quarter amounted to \$327 million.

Business Spending--this is the most strategic part of the GNP. Inventory liquidation is taking place. Plant and equipment expenditures are high at \$37.5 billion, but surveys show that the outlook is for a decrease in the coming year. Moreover, there is expectation that plant and equipment expenditures will remain moderate for another 24 months.

Consumer Spending--still high at \$329 billion, but consumers are expressing hesitancy. The July increase in consumer credit was the smallest since November, 1958. Two surveys, NICB-Newsweek and Federal Reserve-Census, indicate that consumer buying plans for the rest of the year are down.

Business cycles are nonpolitical. Government can--and does--take steps to make the ups and downs less severe. The monetary and fiscal tools for stabilization are there, if they are needed.

SPECIAL CORRESPONDENCE—Religion has become a key issue in the campaign, regardless of the good intentions of the principals. It may turn out to be the decisive factor in the election. If pressed hard, a "Catholic vote" will form solidly behind Kennedy—including conservatives who otherwise would have voted Republican.

Elections are won or lost in the big, populous states. A Catholic vote in the large urban centers could swing these key states into the Kennedy column. This is precisely what the Nixon camp is worried about.

On the other hand, many anti-Benson farmers who would want to vote Democratic in November are also against the idea of a Catholic for President. Nixon's gains on this score will not offset the big-city votes lost to Kennedy.

Thus far, it is too early to tell which way the so-called independent vote is moving. Neither candidate has impressed this decisive segment of the electorate. Both men have been playing it safe, trying to please everyone, trying to offend no one.

For example, the farm problem and automation--two of the most important economic issues facing the American people--are being treated with kid gloves. Realistic but painful solutions are being avoided. The idea is to "help" farmers and "help" workers, but ignore why they need help.

The shape of business in the U.S.--manufacturers' sales up 3% during first 6 months of 1960 over similar 1959 period... but profits are down 7%, after taxes.

Interest-ing switch—falling interest rates in the U.S., intended to forestall a slowdown in business activity, have induced many big investors to shift their capital to Great Britain and the Common Market countries. What's the attraction? Government anti-inflation policies have sent interest rates soaring.

Japanese progress--the U.S. Tariff Commission is now under tremendous pressure from domestic producers to do something about Japanese imports. Such imports during the first half of 1960 were running 28% ahead of last year's pace. Japan has now replaced the United Kingdom as the second largest exporter to the U.S.

The Outer Seven--so far out that even Khrushchev sees no harm in letting Finland participate. What happens when and if the Outer Seven join the Common Market is another story. Moscow is planning further moves to encourage the Outer Seven.

The Common Market--it's unlikely that Israel's feelers on the feasibility of her joining the trade group will get anywhere. CM countries fear Arab reprisals.

* * *

THE DOMESTIC ECONOMY--Is the South enjoying its first real economic "renaissance" since the Civil War?

Economically, the South is still the most backward region in the country. The average per capita income of the 12 Southern states--the 11 former Confederate states plus Oklahoma--is still only 72% of the national average.

True, per capita incomes in the South were only 58% of the national average 20 years ago. But this increase in per capita incomes is at least partly due to the fact that the South's population has increased more slowly than that of the nation as a whole. Between 1940 and 1960 total U.S. population increased from 131.7 million to 179.5 million, or about 36%; during the same period the population of the 12 Southern states increased from 30.2 to 38.2 million, or only about 26%. Today, more than 24% of the nation's population still accounts for less than 16% of the national income.

The real story about the South's economic progress lies not in the income figures, but in the changed sources of that income. As the charts below indicate, the South has become a predominantly industrial region during the last 15 years.

In 1946, more than 42% of the South's labor force still worked on the farms; by 1959 agricultural employment accounted for only 20.2% of the South's total employment.

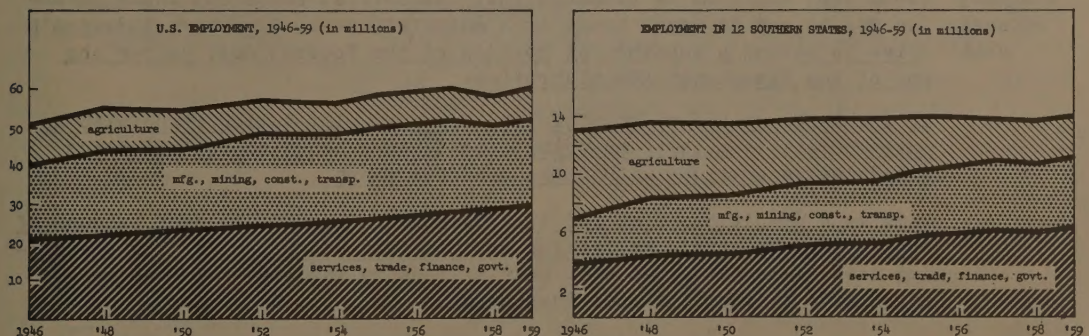
Unlike the rest of the country which has experienced scarcely any gain in manufacturing employment since the end of the Korean war, the South has continued to expand its manufacturing employment, both absolutely and relatively since the end of World War II.

In 1946, 27.6% of the South's gainfully employed were working in manufacturing; last year, that proportion had risen to 35.3%. But, like the rest of the country, the biggest employment gains have been chalked up by the service industries. In 1946, the service industries employed 30.1% of the South's gainfully employed; last year, that proportion had jumped to 44.5%.

Urbanization has followed industrial development. Between 1930 and 1960 the South's urban population has increased from 34% of the total to more than half. This urbanization would have proceeded even faster if a substantial proportion of the South's population had not migrated to the North. Between 1930 and 1950, 2.2 million people (72% of them Negro) migrated to the North. Experts believe that the rate of Northward migration has increased since then.

The industrial boom in the South, in other words, has not been enough to keep a sizable portion of the South's population from leaving the region.

There are important social obstacles which are slowing down the South's economic progress. While there seems little evidence that the South's economy as a whole has suffered as a result of the desegregation issue, Southern communities where there has been racial violence have almost invariably found it impossible to attract Northern capital.



Between 1950 and 1957, for example, Little Rock, Ark., gained 40 new industrial plants employing 2,378 people, and there was every evidence that this trend would continue. Then came the school crisis in September, 1957; and since then not a single new plant has located in Little Rock. Other Southern towns where there has been racial violence have had similar experiences.

There is every reason to believe that industrial progress will in the long run reduce race tensions; but there is also every indication that race tensions will impede industrial development. It is for the people of the South to extricate themselves from this vicious circle.

air coach fares may rise

ECONOMIC NEWS NOTES--The nation's major airlines are petitioning the Civil Aeronautics Board for an increase in air coach fares to narrow the price gap (in some cases as large as 35%) between coach and first-class service.

The airlines' request was brought on by rapidly declining business on first-class flights, which last month saw coach traffic accounting for more than 50% of passenger business. Last year it accounted for 42% and in 1955 only 34%.

The airlines' recent tendency to use the same plane for both coach and first-class passengers--the only difference being in the food and beverage service--has been an important factor in discouraging first-class ticket sales. The jets have also made their contribution to this trend, since people are less inclined to pay for luxury service if the trip is of a short duration.

* * *

IRS disagrees with court ruling

The Internal Revenue Service has announced that it will not follow on a nationwide basis a ruling of the U.S. Court of Appeals Eighth Circuit allowing gas companies to depreciate their rights-of-way which are not limited in point of time.

The IRS has decided not to appeal the ruling to the Supreme Court, but has put the gas companies on notice that it will challenge similar deductions outside the Eighth Circuit.

This, in effect, means that only companies located within the Eighth Circuit--Arkansas, Iowa, Minnesota, Missouri, Nebraska and the Dakotas--can claim the deduction, unless other companies are prepared to go to court and challenge the government's ruling.

* * *

Treasury refunds debt

The Treasury's offer to holders of World War II 2½% bonds maturing between 1967 and 1969 to exchange their securities for a 3½% issue maturing 20, 30 and 38 years hence is a major effort in Secretary Anderson's drive to refund a substantial portion of the federal debt before the end of the Eisenhower Administration.

If the issue proves successful, the Treasury will follow it up with an intermediate term issue maturing 6 to 8 years hence to replace bonds scheduled to come due within the next few years.

This is a propitious time for the Treasury to refund the debt because of the Federal Reserve's relaxation of its tight money policy. The prevailing lower interest rates will make a Treasury issue at 3½% much more attractive to institutional investors.

* * *

Blue Cross standardizes plans

The Blue Cross Association, the national organization of local Blue Cross hospital plans, is making a concerted drive to standardize local plans to meet increasing competition in the health insurance field.

Insurance companies have a decided edge in competing for the business of large national companies since they can offer one standardized plan throughout the entire United States. Blue Cross, on the other hand, must operate through the local plans, which usually have different benefits and rate schedules.